S. Hrg. 99-219

SECURITY AND DEVELOPMENT ASSISTANCE

HEARINGS

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

S. 559

A BILL TO AMEND THE FOREIGN ASSISTANCE ACT OF 1969 TO AUTHORIZE FISCAL YEAR 1986 APPROPRIATIONS FOR THE INTER-AMERICAN FOUNDATION AND FOR OTHER PURPOSES

S. 560

A BILL TO EXTEND THE AUTHORITY OF THE AFRICAN DEVELOPMENT FOUNDATION AND FOR OTHER PURPOSES

S. 660

A BILL TO AMEND THE FOREIGN ASSISTANCE ACT OF 1961, THE ARMS EXPORT CONTROL ACT AND THE AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT OF 1954, TO AUTHORIZE DEVELOPMENT AND SECURITY ASSISTANCE PROGRAMS FOR FISCAL YEAR 1986, AND FOR OTHER PURPOSES

S. 656

A BILL TO FURTHER AMEND THE PEACE CORPS ACT, AND FOR OTHER PURPOSES

MARCH 15, 20, 21, 22, AND 26, 1985

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SECURITY AND DEVELOPMENT ASSISTANCE

FRIDAY, MARCH 15, 1985

United States Senate,
Committee on Foreign Relations,
Washington, DC.

The committee met, pursuant to notice, at 3:30 p.m., in room SD-419, Dirksen Senate Office Building, Hon. Richard G. Lugar (chairman of the committee) presiding.

Present: Senators Lugar, Helms, Mathias, Boschwitz, Pressler, Pell, Sarbanes, Zorinsky, and Cranston.

The Chairman. This hearing of the Senate Foreign Relations Committee is called to order.

Mr. Secretary, this is the first formal opportunity we have had to converse with you since you have returned from the funeral of Constantine Chernenko and since Senator Pell and I returned from the Geneva arms control talks as members of the Senate Arms Control Observer Group.

Both foreign assistance and arms control are components of the overall foreign policy of the United States. With your indulgence, therefore, I think it is appropriate to report to you and the administration our initial observations and impressions drawn from our participation in the opening of the arms control talks in Geneva.

Like the foreign assistance instrument of American foreign policy, arms control cannot be considered in a vacuum. The talks in Geneva will likely continue for many months and even years. The members of our Arms Control Observer Group sought to demonstrate that the administration's arms control efforts enjoy broad bipartisan support in the Senate. Patience and perseverance will be required by our negotiators. Those qualities must be matched by endeavor over the long haul.

Senator Robert Byrd put it well when he cautioned the negotiators not to become discouraged with the pace of the negotiations. He said the Senate would not become discouraged unless our negotiators became discouraged.

Our trip to Geneva was indicative, as well, of the seriousness of purpose with which the Senate intends to pursue its role under the Constitution with respect to the arms control process. We will advise and consult with our negotiating team both here and in Geneva, and we will report to the Senate on the course of the negotiations.

We had several opportunities to meet with our negotiators prior to the initial formal negotiating round. Our discussions with the team, both here and in Geneva, allowed us an opportunity to state our views and to engage in a confidential exchange of information. We had a very useful debriefing from our negotiators following the conclusion of the first negotiating session.

We came away from the Geneva talks both with an appreciation of the complexity of the issues to be negotiated and with a profound respect for the talents of the American negotiators.

Max Kempelmann, John Tower, and Mike Glitman are well prepared for their assignments and have entered into the negotiations with a sense of creativity and flexibility, but most importantly, with a clear recognition of the need to negotiate an agreement that serves and enhances American national interest.

We Senate observers do not have a direct role in the talks. We will observe and not negotiate in Geneva. But all Members of the Senate do have a direct role to play as part of the backup team in Washington. We cannot legislate arms control agreements. We can, however, contribute to the development of a national security posture that is conducive to progress in arms control.

That opportunity is afforded us on votes dealing with the Strategic Modernization Program, for example. That opportunity is presented to us as well with respect to the strengthening of other foreign policy instruments.

Foreign assistance, the subject of our hearing this afternoon, is one such instrument wherein the Senate has a responsibility.

Today we begin the process of examining the administration's fiscal year 1986 foreign assistance proposal. Our foreign assistance programs provide an important policy instrument for furthering our foreign policy and strategic interests around the world.

This is the first hearing of the committee on the administration's foreign assistance proposals, and we are delighted that Secretary Shultz could be here to present an overview of that request.

The authorization bill contains some $11.9 billion in new budget authority for economic and military assistance, an increase, we calculate, of some 5.7 percent over the funding level for fiscal year 1985.

The committee appreciates the vital role foreign assistance plays in promoting, protecting, and preserving our foreign policy and security interests abroad, and in assisting economic development, political stability and improved security within and among countries friendly to the United States.

In an increasingly interdependent world, the interests of the United States are more closely tied to the well-being and interests of our friends and allies. Our economic well-being and our own security will vary with the economic health and the security of other countries with whom we are closely linked.

Mr. Secretary, we are grateful that you have come in person today after a long and arduous trip from Moscow where you have served our country so well once again. We would like to welcome you to the committee this afternoon.

[The text of S. 559, S. 560, S. 660 and S. 656 follows:]

99TH CONGRESS
1ST SESSION

S. 559

To amend the Foreign Assistance Act of 1969 to authorize fiscal year 1986 appropriations for the Inter-American Foundation and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 5 (legislative day, FEBRUARY 18), 1985

Mr. LUGAR (by request) introduced the following bill; which was read twice and referred to the Committee on Foreign Relations

---

A BILL

To amend the Foreign Assistance Act of 1969 to authorize fiscal year 1986 appropriations for the Inter-American Foundation and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 401(s)(2) of the Foreign Assistance Act of 1969 (22 U.S.C. sec. 290f(s)) is amended to replace the phrase "$16,000,000 for the fiscal year 1984 and $16,000,000 for the fiscal year 1985" with the phrase "$8,669,000 for the fiscal year 1986, and such sums as may be necessary for the fiscal year 1987". Amounts appropriated under this paragraph are authorized to remain available until expended.

II

99TH CONGRESS
1ST SESSION

S. 560

To extend the authority of the African Development Foundation and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 5 (legislative day, FEBRUARY 18), 1985

Mr. LUGAR (by request) introduced the following bill; which was read twice and referred to the Committee on Foreign Relations

---

A BILL

To extend the authority of the African Development Foundation and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. Section 511 of title V of the International Security and Development Cooperation Act of 1980 (22 U.S.C. 2151) is amended by deleting "September 30, 1985" in the first sentence, and inserting "September 30, 1990" in lieu thereof.

SEC. 2. A new section 512 is added at the end of title V to read as follows:

AUTHORIZATION OF APPROPRIATIONS

SEC. 512. There are authorized to be appropriated to the President to carry out this title, in addition to funds otherwise available for such purpose, $1,000,000 for the fiscal year 1986, and such sums as may be necessary for fiscal year 1987. Funds appropriated under this section are authorized to remain available until expended.

II

99TH CONGRESS
1ST SESSION

S. 660

To amend the Foreign Assistance Act of 1961, the Arms Export Control Act and the Agricultural Trade Development and Assistance Act of 1954, to authorize development and security assistance programs for fiscal year 1986, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 14 (legislative day, FEBRUARY 18), 1985

Mr. LUGAR (by request) introduced the following bill; which was read twice and referred to the Committee on Foreign Relations

---

A BILL

To amend the Foreign Assistance Act of 1961, the Arms Export Control Act and the Agricultural Trade Development and Assistance Act of 1954, to authorize development and security assistance programs for fiscal year 1986, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "International Security and Development Cooperation Act of 1985".

TITLE I—MILITARY SALES AND RELATED PROGRAMS

FOREIGN MILITARY SALES CREDIT AUTHORIZATION AND AGGREGATE CEILINGS

SEC. 101. (a) The first sentence of section 31(a) of the Arms Export Control Act is amended to read as follows: "There are hereby authorized to be appropriated to the President to carry out section 23 of this Act $5,655,000,000 for the fiscal year 1986.".

(b) Section 31(b)(1) is amended to read as follows:

"(b)(1) The total amount of credits extended under section 23 of this Act shall not exceed $5,655,000,000 for the fiscal year 1986.".

(c) Section 31(b)(3) of such Act is amended to read as follows:

"(3) Of the aggregate total of credits extended under section 23 of this Act, not less than $1,800,000,000 for the fiscal year 1986 shall be available only for Israel, and Israel shall be released from its contractual liability to repay the United States Government with respect to such credits.".

(d) Section 31(b)(5) of such Act is amended to read as follows:

"(5) The principal amount of credits provided under section 23 at interest rates equivalent to the current average interest rate for United States Government obligations of comparable maturity, or under section 24(a) if provided by the Federal Financing Bank, with respect to Greece, Korea, the Philippines, Portugal, Thailand, and Turkey, shall (if and to the extent each country so desires) be repaid in not more than twenty years, following a grace period of ten years on repayment of principal.".

(e) Section 31(b)(6) of such Act is amended to read as follows:

"(6) Of the total amount of credits extended under section 23 of this Act, not less than $1,300,000,000 for the fiscal year 1986 shall be available only for Egypt, and Egypt shall be released from its contractual liability to repay the United States Government with respect to such credits.".

(f) Sections 31(b)(7) and 31(c) of such Act are repealed.

ADMINISTRATIVE SURCHARGE

SEC. 102. Subparagraph (A) of section 21(e)(1) of the Arms Export Control Act is amended by inserting "(excluding a pro rata share of fixed base operation costs)" immediately after "full estimated costs".

CATALOG DATA AND SERVICES

SEC. 103. Section 21(h) of the Arms Export Control Act is amended—

(1) by inserting "(1)" immediately after "(h)";

(2) by striking out "(1)" and "(2)" and inserting in lieu thereof "(A)" and "(B)" respectively; and

(3) by adding at the end thereof the following:

"(2) In carrying out the objectives of this section, the President is authorized to provide cataloging data and cataloging services, without charge, to the North Atlantic Treaty Organization or to any member government thereof, if such Organization or member government provides such data and services in accordance with an agreement on a reciprocal basis, without charge, to the United States Government.".

CONTRACT ADMINISTRATION SERVICES

SEC. 104. Section 21(h) of the Arms Export Control Act is amended by inserting "contract administration services," immediately after "inspection," in the first sentence.

SALES CREDITS

SEC. 105. Section 23 of the Arms Export Control Act is amended to read as follows:

"SEC. 23. SALES CREDITS.—The President is authorized to finance procurement of defense articles, defense services and design and construction services by friendly foreign countries and international organizations, on such terms and conditions as he may determine. The President shall charge interest at a rate determined by the Secretary of the Treasury taking into consideration the current market yields on outstanding marketable obligations of the United States of comparable maturities. Notwithstanding the preceding sentence, the President may charge a lesser rate of interest if he determines that the national interest requires a lesser rate. Loan agreements under this section shall require repayment in United States dollars within a period not to exceed twelve years after the loan agreement is signed on behalf of the United States Government, unless a longer period is specifically authorized by statute for such country or international organization.".

GUARANTEE RESERVE

SEC. 106. The second sentence of section 24(c) of the Arms Export Control Act is amended to read as follows: "There are hereby authorized to be appropriated and are appropriated from time to time such funds as may be necessary to pay claims under such guarantees to the extent funds in the single reserve are inadequate therefor.".

REPORTING REQUIREMENT

SEC. 107. (a) Section 25(a) of the Arms Export Control Act is amended in the text preceding paragraph (1) by inserting "or, in the case of paragraph (4), no later than April 1 of each year" immediately after "each year".

(b) Section 25 of this Act is amended by striking out subsection (a)(4) and inserting in lieu thereof the following:

"(4) an estimate of the sale and delivery of weapons and weapons-related defense equipment by all major arms suppliers to all major recipient countries in the developing world during the preceding calendar year;".

COOPERATIVE AGREEMENTS ON AIR DEFENSE IN CENTRAL EUROPE

SEC. 108. (a) The Secretary of Defense may carry out the European air defense agreements. In carrying out those agreements, the Secretary—

(1) may provide without monetary charge to the Federal Republic of Germany articles and services as specified in the agreements; and

(2) may accept from the Federal Republic of Germany (in return for the articles and services provided under paragraph (1)) articles and services as specified in the agreements.

(b) In connection with the administration of the European air defense agreements, the Secretary of Defense may—

(1) waive any surcharge for administrative services otherwise chargeable under section 21(e)(1)(A) of the Arms Export Control Act;

(2) waive any charge not otherwise waived for services associated with contract administration for the sale under the Arms Export Control Act of Patriot air defense missile fire units to the Federal Republic of Germany contemplated in the agreements;

(3) use, to the extent contemplated in the agreements, the NATO Maintenance and Supply Agency (A) for the supply of logistical support in Europe for the

Patriot missile system, and (B) for the acquisition of such logistical support, to the extent that the Secretary determines that the procedures of that agency governing such supply and acquisition are appropriate;

(4) share, to the extent contemplated in the agreements, the costs of set-up charges of facilities for use by that agency to perform depot-level support of Patriot missile fire units in Europe; and

(5) deliver to the Federal Republic of Germany one Patriot missile fire unit configured for training, to be purchased by the Federal Republic of Germany under the Arms Export Control Act as contemplated in the agreements, without regard to the requirement in section 22 of that Act for payment in advance of delivery for any purchase under that Act.

(c) Notwithstanding the rate required to be charged under section 21 of the Arms Export Control Act for services furnished by the United States, in the case of 14 Patriot missile fire units which the Federal Republic of Germany purchases from the United States under the Arms Export Control Act as contemplated in the European air defense agreements, the rate charged by the Secretary of Defense for packing, crating, handling, and transportation services associated with that purchase may not exceed the established Department of Defense rate for such services.

(d) For the purposes of this section, the term "European air defense agreements" means (1) the agreement entitled "Agreement between the Secretary of Defense of the United States of America and the Minister of Defense of the Federal Republic of Germany on Cooperative Measures for Enhancing Air Defense for Central Europe," signed on December 6, 1983, and (2) the agreement entitled "Agreement between the Secretary of Defense of the United States of America and the Minister of Defense of the Federal Republic of Germany in implementation of the 6 December 1983 Agreement on Cooperative Measures for Enhancing Air Defense for Central Europe," signed on July 12, 1984.

(e) The authority of the Secretary of Defense to enter into contracts under the European air defense agreements is available only to the extent that appropriated funds, other than those made available under section 31 of the Arms Export Control Act, are available for that purpose.

QUARTERLY REPORTS

SEC. 109. Section 36(a) of the Arms Export Control Act is amended by striking out the parenthetical clause in the text preceding paragraph (1) and inserting in lieu thereof "(except that the material transmitted pursuant to paragraphs (1) and (2) of this subsection may be contained in a classified addendum to such report)".

INCREASE IN CRIMINAL PENALTIES FOR CERTAIN VIOLATIONS OF THE ARMS EXPORT CONTROL ACT

SEC. 110. (a) Section 38(c) of the Arms Export Control Act is amended by striking out "not more than $100,000 or imprisioned not more than two years, or both" and inserting in lieu thereof "for each violation not more than $1,000,000 or imprisoned not more than ten years, or both".

(b) Section 38(e) of such Act is amended by adding at the end thereof the following: "Notwithstanding Section 11(c) of the Export Administration Act of 1979, as amended, the civil penalty for each violation involving controls imposed on the export of defense articles and defense services under this section may not exceed $500,000.".

(c) This section shall take effect upon the date of enactment of this Act or October 1, 1985, whichever is later. The amendments made by this section apply with respect to violations occurring after the effective date of this section.

OFFICIAL RECEPTION AND REPRESENTATION EXPENSES

SEC. 111. Section 43 of the Arms Export Control Act is amended—

(1) in subsection (b) by inserting "and official reception and representation expenses" immediately after "administrative expenses"; and

(2) by adding at the end thereof the following new subsection:

"(c) Not more than $72,500 of the funds derived from charges for administrative services pursuant to section 21(e)(1)(A) of this Act may be used each fiscal year for official reception and representation expenses.".

SAFETY RELATED EQUIPMENT

SEC. 112. Section 44 of the Arms Export Control Act is amended by inserting "(a)" immediately in front of the first sentence and by adding at the end thereof the following:

"(b) No provision of any law shall be construed to prohibit the sale or licensing for export of items which are essential to the safe operation of any defense article.".

SPECIAL DEFENSE ACQUISITION FUND

SEC. 113. Section 51(a) of the Arms Export Control Act is amended by adding the following paragraphs to the end thereof:

"(3) In order to maintain the readiness of the Armed Forces of the United States while facilitating the transfer of less advanced weapons systems in the inventory of the Department of Defense to foreign countries and international organizations in accordance with the provisions of this Act, the Foreign Assistance Act of 1961, or as otherwise authorized by law, instead of the transfer of more advanced weapons systems from procurement, the Fund may be used to acquire defense articles and defense services in anticipation of their transfer, on a reimbursable basis, to the Department of Defense to replace items transferred from the inventory of that Department to foreign countries and international organizations if such items are no longer in production for use by the Armed Forces of the United States.

"(4) The Fund may be used to keep on continuous order such defense articles and defense services as are assigned by the Department of Defense for integrated management by a single agency thereof for the common use of all Military Departments in anticipation of the transfer of similar defense articles and defense services to foreign countries and international organizations authorized by this Act, the Foreign Assistance Act of 1961, or other law.".

MILITARY ASSISTANCE

SEC. 114. Section 504(a)(1) of the Foreign Assistance Act of 1961 is amended to read as follows:

"(a)(1) There are authorized to be appropriated to the President to carry out the purposes of this chapter $949,350,000 for the fiscal year 1986.".

MILITARY ASSISTANCE COSTS

SEC. 115. Section 503(a) of the Foreign Assistance Act of 1961 is amended by adding the following sentence at the end of paragraph (3) thereof: "Sales which are wholly paid from funds so transferred shall be priced to exclude the costs of salaries of members of the Armed Forces of the United States.".

WAIVER OF NET PROCEEDS OF SALE OF MAP ITEMS

SEC. 116. Section 505(f) of the Foreign Assistance Act of 1961 is amended by adding at the end thereof the following: "In the case of defense articles delivered more than five years prior to the President's determination, the President may waive the requirement that such net proceeds be paid to the United States Government if he determines that to do so is in the national interest of the United States.".

STOCKPILING OF DEFENSE ARTICLES FOR FOREIGN COUNTRIES

SEC. 117. Section 514(b)(2) of the Foreign Assistance Act of 1961 is amended to read as follows:

> "(2) The value of such additions to stockpiles in foreign countries shall not exceed $360,000,000 for the fiscal year 1986.".

SECURITY ASSISTANCE ORGANIZATIONS

SEC. 118. Section 515(c)(1) of the Foreign Assistance Act of 1961 is amended by striking out "For the fiscal year 1982 and the fiscal year 1983" and inserting in lieu thereof "Pakistan, Tunisia, Sudan, El Salvador, Honduras, Venezuela".

INTERNATIONAL MILITARY EDUCATION AND TRAINING

SEC. 119. Section 542 of the Foreign Assistance Act of 1961 is amended to read as follows:

"SEC. 542. AUTHORIZATION.—There are authorized to be appropriated to the President to carry out the purposes of this chapter $65,650,000 for the fiscal year 1986.".

EXCHANGE TRAINING

SEC. 120. Chapter 5 of part II of the Foreign Assistance Act of 1961 is amended as adding the following section:

"SEC. 544. EXCHANGE TRAINING.—In carrying out this chapter, the President is authorized to provide for attendance of foreign military personnel at professional military education institutions in the United States (other than Service academies) without charge, and without charge to funds available to carry out this chapter (notwithstanding section 632(d) of this Act), if such attendance is pursuant to an agreement providing for the exchange of students on a one-for-one, reciprocal basis each fiscal year between those United States professional military education institutions and comparable institutions of foreign countries and international organizations.".

TRAINING IN MARITIME SKILLS

SEC. 121. (a) Chapter 5 of part II of the Foreign Assistance Act of 1961 is amended by adding the following section:

"SEC. 545. TRAINING IN MARITIME SKILLS.—The President is encouraged to allocate a portion of the funds made available each fiscal year to carry out this chapter for use in providing education and training in maritime search and rescue, operation and maintenance of aids to navigation, port security, at-sea law enforcement, international maritime law, and general maritime skills."; and

(b) Section 660(b) of such Act of 1961 is amended—

(1) by striking out "or" at the end of clause (1);

(2) by striking out the period at the end of clause (2) and inserting in lieu thereof "; or"; and

(3) by adding the following new clause after clause (2);

"(3) with respect to assistance, including training, in maritime law enforcement.".

AUTHORIZATION FOR PEACEKEEPING OPERATIONS

SEC. 122. Section 552(a) of the Foreign Assistance Act of 961 is amended to read as follows:

"(a) There are authorized to be appropriated to the President to carry out the purposes of this chapter, in addition to amounts otherwise available for such purposes, $37,000,000 for the fiscal year 1986.".

PEACEKEEPING OPERATIONS EMERGENCIES

SEC. 123. (a) Section 552 of the Foreign Assistance Act of 1961 is amended—

(1) by inserting in subsection (c) the number "(1)" immediately after "the President may";

(2) by inserting in subsection (c) immediately before the period at the end of the subsection "; and (2) in the event the President also determines that such unforeseen emergency requires the immediate provision

of assistance under this chapter, direct the drawdown of commodities and services from the inventory and resources of any agency of the United States Government of an aggregate value not to exceed $25,000,000 in any fiscal year"; and

(3) by inserting at the end thereof the following subsection:

"(d) There are authorized to be appropriated to the President such sums as may be necessary to reimburse the applicable appropriation, fund, or account for commodities and services provided under subsection (c)(2) of this section.".

(b) Section 652 of such Act is amended by inserting ", 552(c)(2)," immediately after "under section 506(a)".

TITLE II—ECONOMIC SUPPORT FUND

AUTHORIZATION OF APPROPRIATIONS

SEC. 201. (a) Section 531(b)(1) of the Foreign Assistance Act of 1961 is amended to read as follows:

"(b)(1) There are authorized to be appropriated to the President to carry out the purposes of this chapter $2,824,000,000 for the fiscal year 1986.".

(b) Section 535 of such Act is amended—

(1) by striking out "1982" and inserting in lieu thereof "1986"; and

(2) by striking out "and up to $75,000,000 for the fiscal year 1983".

(c) Chapter 4 of part II of such Act is amended—

(1) by striking out existing sections 532, 533, 534, 536, 537, 538, 539, and 540; and

(2) by redesignating existing section 535 as section 532.

TITLE III—DEVELOPMENT ASSISTANCE

DEVELOPMENT ASSISTANCE POLICY

SEC. 301. Section 102(b) of the Foreign Assistance Act of 1961 is amended by adding the following new paragraphs:

"(13) United States encouragement of policy reforms is necessary if developing countries are to achieve economic growth with equity.

"(14) Development assistance should, as a fundamental objective, promote private sector activity in open and competitive markets in developing countries, recognizing such activity to be a productive and efficient means of achieving equitable and long term economic growth.

"(15) United States cooperation in development should recognize as essential the need of developing countries to have access to appropriate technology in order to improve food and water, health and housing, education and employment, agriculture and industry.

"(16) United States assistance should focus on establishing and upgrading the institutional capacities of developing countries in order to promote long term development. An important component of institution building involves training to expand the human resource potential of people in developing countries.".

AGRICULTURE, RURAL DEVELOPMENT, AND NUTRITION

SEC. 302. The first sentence of section 103(a)(2) of the Foreign Assistance Act of 1961 is amended to read as follows: "There are authorized to be appropriated to the President for purposes of this section, in addition to funds otherwise available for such purposes, $792,352,000 for the fiscal year 1986, of which the President may use such amounts as he deems appropriate to carry out the provisions of section 316 of the International Security and Development Cooperation Act of 1980.".

POPULATION AND HEALTH

SEC. 303. (a) Section 104(g) of the Foreign Assistance Act of 1961 is amended to read as follows:

"(g) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to the President, in addition to funds otherwise available for such purposes—

"(1) $250,017,000 for the fiscal year 1986 to carry out subsection (b) of this section; and

"(2) $146,427,000 for the fiscal year 1986 to carry out subsection (c) of this section, of which not less than $25,000,000 shall be available to carry out subsection (c)(2).

Funds appropriated under this subsection are authorized to remain available until expended.".

(b) Section 104(c)(2) of such Act is amended by—

(1) striking out "(A)" at the beginning of paragraph (2);

(2) adding the following at the end of paragraph (2): "Appropriations pursuant to this paragraph may be referred to as the 'Child Survival Fund'."; and

(3) striking out subparagraphs (B) and (C).

EDUCATION AND HUMAN RESOURCES DEVELOPMENT

SEC. 304. (a) The second sentence of section 105(a) of the Foreign Assistance Act of 1961 is amended to read as follows: "There are authorized to be appropriated to the President for the purposes of this section, in addition to funds otherwise available for such purposes, $183,533,000 for the fiscal year 1986, which are authorized to remain available until expended.".

(b) The third sentence of such section is repealed.

ENERGY, PRIVATE VOLUNTARY ORGANIZATIONS, AND SELECTED DEVELOPMENT ACTIVITIES

SEC. 305. Section 106(e)(1) of the Foreign Assistance Act of 1961 is amended to read as follows:

"(e)(1) There are authorized to be appropriated to the President for purposes of this section, in addition to funds otherwise available for such purposes, $223,071,000 for the fiscal year 1986.".

PRIVATE SECTOR REVOLVING FUND

SEC. 306. The first sentence of section 108(b) of the Foreign Assistance Act of 1961 is amended by striking out "1984" and inserting in lieu thereof "1986".

SAHEL DEVELOPMENT PROGRAM

SEC. 307. The third sentence of section 121(c) of the Foreign Assistance Act of 1961 is amended to read as follows: "In addition to the amounts authorized in the preceding sentences and to funds otherwise available for such purposes, there are authorized to be appropriated to the President for purposes of this section $80,500,000 for the fiscal year 1986.".

PRIVATE AND VOLUNTARY ORGANIZATIONS AND COOPERATIVES IN OVERSEAS DEVELOPMENT

SEC. 308. Section 123(e) of the Foreign Assistance Act of 1961 is amended—

(1) in the first sentence by inserting "on which it is determined" immediately after "prior to the date"; and

(2) in the third sentence by striking out "such date" wherever it occurs and inserting in lieu thereof "the date on which a decision is made to continue such support".

DEVELOPMENT AND ILLICIT NARCOTICS PRODUCTION

SEC. 309. Section 126(b) of the Foreign Assistance Act of 1961 is amended—

(1) by inserting "and under chapter 4 of part II" immediately after "this chapter"; and

(2) by adding at the end thereof the following: "The agency primarily responsible for administering this part may utilize resources for activities aimed at increasing awareness of the effects of production and trafficking of illicit narcotics on source and transit countries.".

HOUSING GUARANTY PROGRAM

SEC. 310. (a) Section 222(a) of the Foreign Assistance Act of 1961 is amended—

(1) in the second sentence, by striking out "$1,958,000,000" and inserting in lieu thereof "$2,003,000,000"; and

(2) in the third sentence, by striking out "1986" and inserting in lieu thereof "1987".

(b) Section 223(j) of such Act is amended in the penultimate sentence by striking out ", and the average face value of guaranties issued in any fiscal year shall not exceed $15,000,000".

TRADE CREDIT INSURANCE PROGRAM

SEC. 311. Section 224(e) of the Foreign Assistance Act of 1961 is amended by striking out "$300,000,000 in the fiscal year 1985" and inserting in lieu thereof "$500,000,000 in the fiscal years 1985 and 1986".

DISADVANTAGED CHILDREN IN ASIA

SEC. 312. Section 241(b) of the Foreign Assistance Act of 1961 is amended by striking out "$2,000,000" and inserting in lieu thereof "$3,000,000".

TITLE IV—CENTRAL AMERICA DEMOCRACY, PEACE, AND DEVELOPMENT INITIATIVE

SEC. 401. Part I of the Foreign Assistance Act of 1961 is amended by adding after chapter 5 the following new chapter:

"CHAPTER 6—CENTRAL AMERICA DEMOCRACY, PEACE, AND DEVELOPMENT INITIATIVE

"SEC 461. STATEMENT OF POLICY.—(a) The Congress finds that the building of democracy, the restoration of peace, the improvement of living conditions, and the application of equal justice under law in Central America are important to the interests of the United States and the community of American States. The Congress further finds that the interrelated issues of social and human progress, economic growth, political reform, and regional security must be effectively dealt with to assure a democratic and economically and politically secure Central America.

"(b) The achievement of democracy, human rights, peace, and equitable economic growth depends primarily on the cooperation and the human and economic resources of the people and governments of Central America. The Congress recognizes that the United States can make a significant contribution to such peaceful and democratic development through a consistent and coherent policy which includes a long-term commitment of assistance. This policy should be designed to support actively democracy and political reform, including opening the political process to all members of society; human rights, including free elections, freedom of the press, freedom of association, and the elimination of the violent abuse of human rights; leadership development, including training and educational programs to improve public administration and the administration of justice; land reform; the establishment of the rule of law and an effective judicial system; the termination of extremist violence by both the left and the right as well as vigorous action to prosecute those guilty of crimes and the prosecution to the extent possible of past offenders. The policy should also promote equitable economic growth and development including controlling the flight of capital and the effective use of foreign assistance and adhering to approved programs for economic stabilization and fiscal responsibility. Finally, the policy should foster dialog and negotiations to achieve peace based upon the objectives of democratization, reduction of armament, an end to subversion, and the withdrawal of foreign military forces and advisers; and to provide a security shield against violence and intimidation. It is the purpose of this chapter to establish the statutory framework and to authorize the appropriations and financing necessary to carry out the policy described in this section.

"(c) The Congress finds therefore that the people of the United States are willing to sustain and expand a program of economic and military assistance in Central America if the recipient countries can demonstrate progress toward and a commitment to these goals.

"SEC. 462. CONDITIONS ON FURNISHING ASSISTANCE.—(a) The President shall ensure that assistance authorized by this Act and the Arms Export Control Act to Central American countries is furnished in a manner which fosters demonstrated progress toward and commitment to the objectives set forth in section 461. Where necessary to achieve this purpose, the President shall impose conditions on the furnishing of such assistance. In carrying out this section, the President shall consult with Congress in regard to progress toward the objectives set forth in section 461, and any conditions imposed on the furnishing of assistance in furtherance of those objectives.

"(b) The reporting requirements with respect to El Salvador contained in the last proviso in the paragraph under the heading 'MILITARY ASSISTANCE' in Public Law 98-332 and section 533 in the Foreign Assistance and Related Programs Appropriations Act, 1985, shall not apply after the enactment of this section.

"SEC. 463. PEACE PROCESS IN CENTRAL AMERICA.—The Congress—

"(1) strongly supports the initiatives taken by the Contadora group and the resulting Document of Objectives which has been agreed to by Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua and which sets forth a framework for negotiating a peaceful settlement to the conflict and turmoil in the region; and

"(2) finds that the United States should provide such assistance and support as may be appropriate in helping to reach comprehensive and verifiable final agreements, based on the Document of Objectives, which will ensure peaceful and enduring solutions to the Central American conflicts.

"SEC. 464. ECONOMIC ASSISTANCE COORDINATION.—(a) The Congress finds that participation by Central American countries in an effective forum for dialog on, and the continuous review and advancement of, Central America's political, economic, and social development would foster cooperation between the United States and Central American countries.

"(b) It is the sense of the Congress that—

"(1) the President should enter into negotiations with the countries of Central America to establish a multilateral organization to help provide a continuous and coherent approach to the development of the Central American region; and

"(2) the establishment of such an organization should be based upon the following principles:

"(A) that participation in the organization be open to the United States, other donors, and those Central American countries that commit themselves to, among other things, progress on human rights, building democracy, and encouraging equitable economic growth through policy reforms;

"(B) that the organization be structured to include representatives from both the public and private sectors, including representatives from the labor, agriculture, and business communities;

"(C) that the organization meet periodically to carry out the functions described in subparagraphs (D) and (E) of this paragraph and should be supported by a limited professional secretariat;

"(D) that the organization make recommendations affecting Central American countries on such matters as—

"(i) political, economic, and social development objectives, including the strengthening of democratic pluralism and the safeguarding of human rights;

"(ii) mobilization of resources and external assistance needs; and

"(iii) reform of economic policies and structures;

"(E) that the organization have the capacity for monitoring country performance on recommendations issued in accordance with subparagraph (D) of this paragraph and for evaluating progress toward meeting such country objectives;

"(F) that to the maximum extent practicable, the United States follow the recommendations of the organization in disbursing bilateral economic assistance for any Central American country. No more than 75 per centum of such United States assistance in any fiscal year should be disbursed until the recommendations of the organization for that fiscal year have been made final and communicated to the donor countries. The limitation on disbursements contained in the previous sentence should apply only to recommendations made final and communicated to donor countries prior to the fourth quarter of such fiscal year. The United States representative to the organization should urge other donor countries to similarly implement the recommendations of the organization; and

"(G) that the administrator of the agency primarily responsible for administering part I of this Act, or his designee, represent the United States Government in the organization and should carry out his functions in that capacity under the continuous supervision and general direction of the Secretary of State.

"(c) Subject to subsection (d)(2), the President is authorized to participate in the organization established pursuant to this section.

"(d)(1) The administrator of the agency primarily responsible for administering part I of this Act, under the supervision and direction of the Secretary of State, shall prepare a detailed proposal to carry out this section and shall keep the Committee on Foreign Affairs of the House of Representatives and the Committee on Foreign Relations of the Senate fully and currently informed concerning the development of this proposal.

"(2) The President shall transmit to the Committee on Foreign Affairs of the House of Representatives and the Committee on Foreign Relations of the Senate a copy of the text of any agreement which he proposes to sign providing for the establishment of and United States participation in the organization described in this section no less than sixty days prior to his signature. During that sixty-day period there shall be full and formal consultations with and review by those committees in accordance with procedures applicable to reprogramming notifications pursuant to section 634A of this Act.

"SEC. 465. AUTHORIZATIONS FOR FISCAL YEARS 1987 THROUGH 1989.—In addition to amounts otherwise available for such purposes, there are authorized to be appropriated to the President, for the purpose of furnishing nonmilitary assistance for Central American countries, $1,200,000,000 for each of the fiscal years 1987 through 1989, to remain available until expended. The President is authorized to transfer funds authorized by this section for obligation in accordance with the authorities of part I of this Act (including chapter 4 of part II of such Act), the Peace Corps Act, the Migration and Refugee Assistance Act of 1962, the United States Information and Education Exchange Act of 1984, the Mutual Educational and Cultural Exchange Act of 1961, the National Endowment for Democracy Act, and the State Department Basic Authorities Act of 1956, as amended.

"SEC. 466. DEFINITIONS.—For the purposes of this chapter, the term 'Central American countries' shall be deemed to include Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and regional programs which benefit such countries.".

ADMINISTRATION OF JUSTICE

SEC. 402. Chapter 4 of part II of the Foreign Assistance Act of 1961 is amended by adding the following new section:

"SEC. 533. ADMINISTRATION OF JUSTICE.—(a) The President may furnish assistance to countries and organizations, including national and regional institutions, in order to strengthen the administration of justice in Latin America and the Caribbean. Assistance under this section may include support for specialized professional training, scholarships, and exchanges for continuing legal education; programs to enhance judicial, prosecutorial, investigative and enforcement capabilities, and to provide protection for participants in judicial cases; strengthening professional organizations to promote services to members and the role of the bar in judicial selection, enforcement of ethical standards, and legal reform; increasing the availability of legal materials and publications; seminars, conferences, training and educational programs to improve the administration of justice and to strengthen respect for the rule of law and human rights; and revision and modernization of legal codes and procedures.

"(b) The assistance specified in this section may be provided notwithstanding section 660 of this Act. The President shall notify the Committee on Foreign Affairs of the House of Representatives and the Committee on Foreign Relations of the Senate not less than fifteen days in advance of obligating funds pursuant to this section for programs or activities under this section which would otherwise be subject to section 660 of this Act.".

LAND REFORM

SEC. 403. Section 620(g) of the Foreign Assistance Act of 1961 is amended by adding at the end thereof the following sentence: "This prohibition shall not apply to monetary assistance made available for use by a government or political subdivision or agency of such government to compensate nationals of that country in accordance with a land reform program, if the President determines that monetary assistance for such land reform program will further the national interests of the United States.".

TITLE V—MISCELLANEOUS PROVISIONS

AMERICAN SCHOOLS AND HOSPITALS ABROAD

SEC. 501. Section 214(c) of the Foreign Assistance Act of 1961 is amended to read as follows:

"(c) To carry out the purposes of this section, there are authorized to be appropriated to the President $10,000,000 for the fiscal year 1986, which are authorized to remain available until expended.".

INTERNATIONAL ORGANIZATIONS AND PROGRAMS

SEC. 502. Section 302(a)(1) of the Foreign Assistance Act of 1961 is amended to read as follows:

"(a)(1) There are authorized to be appropriated to the President for grants to carry out the purposes of this chapter, in addition to funds available under any other Acts for such purposes, $196,211,000 for the fiscal year 1986.".

INTERNATIONAL NARCOTICS CONTROL

SEC. 503. Section 482(a)(1) of the Foreign Assistance Act of 1961 is amended to read as follows:

"(1) To carry out the purposes of section 481, there are authorized to be appropriated to the President $57,529,000 for the fiscal year 1986.".

NARCOTICS REPORTING REQUIREMENT

SEC. 504. Section 481(b) of the Foreign Assistance Act of 1961 is amended to read as follows:

"(b)(1) Not later than forty-five days after the end of each calendar quarter, the President shall transmit to the Speaker of the House of Representatives, and to the Committee on Foreign Relations of the Senate, a report on the programming and obligation, on a calendar basis, of funds under this chapter prior to the end of that quarter. The last such report for each fiscal year shall include the aggregate obligations and expenditures made, and the types and quantity of equipment provided, on a calendar quarter basis, prior to end of that fiscal year—

"(A) to carry out the purposes of this chapter with respect to each country and each international organization receiving assistance under this chapter, including the cost of the United States personnel engaged in carrying out such purposes in each such country and with each such international organization;

"(B) to carry out each program conducted under this chapter in each country and by each international organization, including the cost of United States personnel engaged in carrying out each such program; and

"(C) for administrative support services within the United States to carry out the purposes of this chapter, including the cost of United States personnel engaged in carrying out such purposes in the United States.

"(2) Not later than August 1 of each year, the President shall transmit to the Speaker of the House of Representatives, and to the Committee on Foreign Relations of the Senate, a complete and detailed midyear report on the activities and operations carried out under this chapter prior to such date. Such midyear report shall include, but not be limited to, the status of each agreement concluded prior to such date with other countries to carry out the purposes of this chapter.".

INTERNATIONAL DISASTER ASSISTANCE

SEC. 505. The first sentence of section 492(a) of the Foreign Assistance Act of 1961 is amended to read as follows: "There are authorized to be appropriated to the President to carry out section 491 $25,000,000 for the fiscal year 1986.".

ANTI-TERRORISM ASSISTANCE PROGRAM

SEC. 506. (a) Section 575 of the Foreign Assistance Act of 1961 is amended to read as follows:

"SEC. 575. AUTHORIZATION.—There are authorized to be appropriated to the President to carry out this chapter $5,000,000 for the fiscal year 1986. Amounts appropriated under this section are authorized to remain available until expended.".

(b) Section 573(d)(4) of such Act is repealed and existing paragraph "(5)" is renumbered as paragraph "(4)"; and

(c) Section 577 of such Act is repealed.

COMPLETION OF PLANS AND COST ESTIMATES

SEC. 507. (a) Section 611(a) of the Foreign Assistance Act of 1961 is amended—

(1) by striking out "$100,000" and inserting in lieu thereof "$500,000"; and

(2) by striking out "section 1311 of the Supplemental Appropriation Act, 1955 as amended (31 U.S.C. 200)" and inserting in lieu thereof "section 1501 of title 31, United States Code".

(b) Section 611(b) of such Act is amended by striking out the phrase "the procedures set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973, with respect to such computations" and inserting in lieu thereof "the principles, standards and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.) or Acts amendatory or supplementary thereto".

PROHIBITIONS AGAINST ASSISTANCE

SEC. 508. Section 620(f) of the Foreign Assistance Act of 1961 is amended—

(1) by inserting "(1)" immediately after "(f)";

(2) by redesignating clauses (1), (2), and (3) as clauses (A), (B), and (C), respectively; and

(3) by adding at the end thereof the following new paragraph:

"(2) Notwithstanding the provisions of paragraph (1) of this subsection, the President may remove a country, for such period as the President determines, from the application of this subsection, and other provisions which reference this subsection, if the President determines and reports to the Congress that such action is important to the national interest of the United States.".

STREAMLINING OF REPROGRAMMING REQUIREMENTS

SEC. 509. (a) Section 634A of the Foreign Assistance Act of 1961 is amended—

(1) by inserting "(a)" immediately before "None";

(2) by inserting "or the Arms Export Control Act" immediately after "disaster relief and rehabilita-

tion)" and immediately after "this Act" the second place it appears;

(3) by inserting ": *Provided,* That such notification shall not be required for funds appropriated to carry out the purposes of chapter 1 of part I if the obligation for an activity, program or project will be in excess of the amount justified for such activity, program or project for a fiscal year by not more than 10 per centum" immediately after "such obligation"; and

(4) by adding at the end of the section the following new subsection:

"(b) The notification requirement of this section does not apply to the reprogramming of less than $25,000 for use under chapter 8 of part I or for use under chapter 5 of part II, for a country for which a program under that chapter for that fiscal year was justified to the Congress.".

(b) Section 653 of the Foreign Assistance Act is amended—

(1) by inserting in subsection (a) "or the Arms Export Control Act" immediately after "sections 451 or 637)";

(2) by striking out subsection (b); and

(3) by redesignating subsection (c) as subsection (b).

(c) Section 36(a)(5) of the Arms Export Control Act is amended—

(1) in paragraph (5) by striking out "cash" and by striking out ", credits to be extended under section 23, and guaranty agreements to be made under section 24"; and

(2) in paragraph (6) by striking out "cash" and striking out "and credits expected to be extended".

TRAINING ASSISTANCE

SEC. 510. Section 638 of the Foreign Assistance Act of 1961, is amended—

(1) by inserting "or any other" immediately after "of this"; and

(2) by inserting "; or for training activities funded under this Act and which are consistent with sections 116, 502B and 660 of this Act" immediately after "Export-Import Bank Act of 1945, as amended".

TRADE AND DEVELOPMENT PROGRAM

SEC. 511. The first sentence of section 661(b) of the Foreign Assistance Act of 1961 is amended to read as follows: "There are authorized to be appropriated to the President for purposes of this section, in addition to funds otherwise available for such purposes, $20,000,000 for the fiscal year 1986.".

OPERATING EXPENSES

SEC. 512. Section 667(a)(1) of the Foreign Assistance Act of 1961 is amended to read as follows:

"(1) $387,000,000 for the fiscal year 1986 for necessary operating expenses of the agency primarily responsible for administering part I of this Act; and".

ILLEGAL EMIGRATION FROM HAITI

SEC. 513. Notwithstanding the limitations of section 660 of the Foreign Assistance Act of 1961, funds made available under such Act may be used for programs with Haiti, which shall be consistent with prevailing United States refugee policies, to assist in halting significant illegal emigration from Haiti to the United States.

PARTICIPANT TRAINEE GRANTS

SEC. 514. Section 1441(c) of the Internal Revenue Code of 1954 is amended by striking out subsection (6) and inserting in lieu thereof the following:

"(6) SCHOLARSHIPS, PER DIEM, ETC. OF CERTAIN ALIENS.—No deduction or withholding under subsection (a) shall be required in the case of amounts of scholarships or fellowship grants, or per diem for subsistence paid by the United States Government (directly or by contract) to any nonresident alien individual who is engaged in any program of training in the United States under the Foreign Assistance Act of 1961, as amended.".

ASSISTANCE FOR AFGHANISTAN

SEC. 515. The President may make available funds authorized to be appropriated to carry out the provisions of chapter 1 of part I and chapter 4 of part II of the Foreign Assistance Act of 1961 for fiscal years 1985 and 1986 for the provision of food, medicine or other humanitarian assistance to the Afghan people, notwithstanding any other provision of law. This section shall take effect on the date of enactment of this Act.

REPEAL OF PROVISIONS; TECHNICAL AMENDMENTS

SEC. 516. (a) The Foreign Assistance Act of 1961 is amended as follows:

(1) Section 106(b)(1) is amended by striking out "(A)" and by striking out subparagraph (B).

(2) Section 110 is amended by striking out "(a)" and by striking out subsection (b).

(3) Section 306 is amended by striking out "(a)" and by striking out subsection (b).

(4) Chapter 10 of part I is repealed.

(b) Section 636(a)(14) of the Foreign Assistance Act of 1961 is amended by striking out "the Foreign Service Act of 1946, as amended (22 U.S.C. 801 et seq.)" and inserting in lieu thereof "the Foreign Service Act of 1980 (22 U.S.C. 3901 et seq.)".

(c) Section 47(6) of the Arms Export Control Act is amended by striking out "combat" and inserting in lieu thereof "military".

TITLE VI—FOOD FOR PEACE PROGRAM

RESOURCES FOR SECTION 206 DEVELOPMENT PROGRAMS

SEC. 601. Section 201(b)(3) of the Agricultural Trade Development and Assistance Act of 1954 is amended by inserting "or shall be available to carry out programs subject to the requirements of section 206" immediately after "World Food Program".

USE OF LOCAL CURRENCIES FOR EDUCATION PROGRAMS UNDER TITLE III

SEC. 602. Section 301(b) of the Agricultural Trade Development and Assistance Act of 1954 is amended by inserting "education," immediately after "health services," in the second sentence thereof.

TITLE VII—AUTHORIZATION FOR THE FISCAL YEAR 1987 AND EFFECTIVE DATE

AUTHORIZATION FOR THE FISCAL YEAR 1987

SEC. 701. There are authorized to be appropriated for the fiscal year 1987 such sums as may be necessary to carry out programs and activities for which appropriations for the fiscal year 1986 are authorized by this Act.

EFFECTIVE DATE

SEC. 702. Except where otherwise stated in this Act, this Act shall take effect on October 1, 1985.

99TH CONGRESS
1ST SESSION

S. 656

To further amend the Peace Corps Act, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 14 (legislative day, FEBRUARY 18), 1985

Mr. LUGAR (by request) introduced the following bill; which was read twice and referred to the Committee on Foreign Relations

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A BILL

To further amend the Peace Corps Act, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 3(b) of the Peace Corps Act (hereinafter the "Act") is amended by changing the first sentence thereof to read as follows: "There are authorized to be appropriated to carry out the purposes of this Act not to exceed $124,400,000 for the fiscal year 1986 and such sums as may be necessary for the fiscal year 1987.".

SEC. 2. Section 15(a) of the Act is amended by adding, at the end thereof, the following sentence: "Technical publications produced by the Peace Corps may be sold at cost in furtherance of the purposes of this Act, and the proceeds of such sales may be credited to the currently applicable appropriation of the Peace Corps, notwithstanding section 3302(b) of title 31.".

The CHAIRMAN. Before I ask for your testimony, I would like to ask Senator Pell if he has an opening statement?

Senator PELL. Thank you, Mr. Chairman.

I join with you in welcoming the Secretary back to the committee to testify on the fiscal 1986 foreign assistance and State Department authorization request. During the course of this hearing I hope we can pursue with the Secretary thoughts about revising the authorization process this year.

I would note that since 1981 we have not had a foreign assistance bill reported out of the committee and through the Senate floor and signed into law. If the President is sincere in his effort to work with Congress on a bipartisan basis to achieve his foreign policy goals—and I believe this President is sincere in this—then the foreign assistance authorization legislation is an essential part of building that kind of consensus. It may not be exactly what he would like in the end, but I would hope that we could get a bill out, and that he would sign it. I would be very interested in hearing how the Secretary proposes we could secure administration support for a bill this year.

As the Secretary notes, too, in his prepared remarks this afternoon, President Reagan himself acknowledged in his second inaugural address, "Every blow we inflict against poverty will be a blow against the dark allies of oppression and war."

I completely agree with our President in that regard, which is why I am very disturbed about the fact that in the foreign assistance bill before us there is a 6.8-percent reduction in the moneys for economic assistance, and a hefty 12.8 percent or, almost twice as much, increase in military aid programs. I think this is exactly wrong, and those ratios should be reversed.

Finally, Mr. Secretary, in addition to foreign aid, we hope to discuss the biannual authorization request for the Department of State. And as you are well aware, on the major legislative front, our committee is very concerned with security. We will be interested to hear how the money is being spent, and what more money is needed, and how we can give our diplomats who are truly on the front lines the decent protection they deserve.

I think it is of some interest here that in the last—there would be more ambassadors killed in their post of duty than there have been generals and admirals in the last two wars.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Pell.

Mr. Secretary, would you proceed with your testimony?

STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF STATE, ACCOMPANIED BY UNDER SECRETARY WILLIAM SCHNEIDER; UNDER SECRETARY RONALD I. SPIERS; AND M. PETER McPHERSON, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

Secretary SHULTZ. Thank you, Mr. Chairman, Senator Pell, Senator Pressler.

First of all, let me say I welcome the thoughtful and constructive views that you have each expressed in general on the foreign assistance request, and also your comments about the arms control negotiations. And I do believe that if we are to succeed, and we must succeed, it is going to be because we are able to be a unified Government reflecting the unified sentiments of the American people on the goals that we are seeking.

Mr. Chairman, at the request of the committee and in view of the time constraints, I have cut a really magnificent, long, thorough discussion of this subject down to practically nothing with the hope that you would permit me to put the full text in the record.

The CHAIRMAN. The Chair will note that 42 pages have been provided, and I know committee members will read them carefully. But we would be grateful for your concise statement.

Secretary SHULTZ. Our foreign assistance request for fiscal 1986 comes before this committee at a time when this administration and the Congress are committed to bringing our budget deficits down. As a former budget director perhaps I am more sympathetic than most to the immense challenge this proposes and the painful choices that will have to be made. At the same time, we must bear in mind that our foreign assistance programs are vital to the achievement of our foreign policy goals. A world of peace, freedom, international stability and human progress cannot be built by the United States alone. We need the support and cooperation of the many friends and allies around the world who share our hopes and dreams of a better world and who rely on us. And if we are to count on our support in facing the difficult and sometimes dangerous challenges of the modern world, we must ourselves be a reliable partner.

We must be consistent in our devotion to the principles we cherish and proclaim: To promote prosperity, to defend freedom, to help build democracy and respect for human rights, to help alleviate suffering, and to protect our friends and allies against aggression.

In his State of the Union Address President Reagan noted that "Dollar for dollar, our security assistance contributes as much to global security as our own defense budget." Strengthening our friends is one of the most effective ways of protecting our interest and furthering our goals. It gives them the ability and the confidence to defend themselves and to work for peace. If we are willing to pay the relatively modest cost and make the necessary sacrifices today, we can avoid far greater cost and sacrifices in the future. Foreign assistance is a prudent investment in our future and the world's future.

When I appeared before this distinguished committee last year on this subject, I sought to show how closely linked our foreign assistance programs are to our most fundamental foreign policy goals. The events over the past 4 years have convinced me more than ever before that we are on the right track. We have strengthened our relationships with our friends in the developing world against Soviet expansionism. We have seen a number of developing countries move toward free and more open economies. Increasingly the world recognizes that statused economic systems do not work; free market economies do. And we have witnessed extraordinary progress in the growth of democratic institutions and in the decline of dictatorships, particularly in our own hemisphere.

There will inevitably be occasional setbacks, but if we stay the course, I believe the emerging pattern of stable and democratic governments will slowly but inexorably grow and be strengthened.

Much remains to be done. The most effective contribution we can make to the developing world is to maintain a healthy American economy. Our economic growth rate in 1983 was a prime reason for the sharp increase in U.S. imports from the non-OPEC developing countries. The developing nations will reap even more substantial benefits from the vigorous growth of our economy in 1984. They also gain, as we do, from our commitment to restraint of protectionist forces.

More than any other factor, however, the domestic policies of these countries will determine the strength and sustainability of their economies and their political institutions. Our foreign assistance can provide those critical incremental resources to help them achieve these objectives.

With this framework in mind we have engaged in an exhaustive budget review process to assure that the sum of our resources and each individual component are the absolute minimum essential to implement and support our foreign policy.

The fiscal 1986 budget request for the international affairs function is $19.3 billion. Of that amount, the foreign assistance request totals $14.8 billion, a $300 million reduction from the fiscal 1985 continuing resolution level.

As is explained in my longer statement, we have yet to determine the economic assistance level for Israel. When that assistance figure is eventually included, our request will be higher than the previous year.

Economic assistance, which includes development assistance, Public Law 480, the economic support fund, and contributions to multilateral development institutions accounts for $8.2 billion. Military assistance, which includes military grants, loans and training, totals $6.6 billion. The remaining $4.5 billion requested for the international affairs function principally finances the operation of the Department of State, USIA, the Export-Import Bank, the Board of International Broadcasting, our assessed contributions to international organizations, contributions to U.N. peacekeeping activities, and U.S. participation in multilateral international conferences.

Within the international affairs function, some appropriation accounts would receive an increase under our request, while others would decline. The function 150 total, however, is well below the fiscal 1985 enacted level. This will remain true even with an add-on for Israel that we may request in the coming weeks. These increases and decreases among individual appropriation accounts reflect the priorities of the administration and the budget freeze philosophy that was applied to this year's budget process. They also reflect our efforts to distribute our scarce resources in a way that will maximize our foreign policy returns and help meet the pressing development and security needs of our strategic partners.

As in the past, the largest single component of our foreign assistance request is for Israel and Egypt, 28 percent of the total. This percentage, of course, will be higher when we include the economic assistance fund for Israel. Assistance to base rights countries—

Spain, Portugal, Greece, Turkey, and the Philippines—accounts for an additional 16 percent, while military access and front line states such as Korea and Thailand take up another 13 percent. Central America and the Caribbean represent another 11 percent of the request. All other country programs account for only 12 percent of the total resources requested. This 12 percent, however, is spread among more than 80 separate countries and regional programs.

Mr. Chairman, my full statement describes in some detail how U.S. national interests are served by our assistance programs.

In closing, Mr. Chairman, I would like to emphasize the basic theme of this year's budget presentation. We have a responsibility to stick with the policies that have worked or begun to work. Quick fixes, pulling back from the fray, or hoping for diplomatic miracles are not responsible options. But if we stand together firmly, predictably and realistically defending our principles and our friends, and do so in the steadfast manner the problems require, then we can prevail. Our fiscal 1986 budget request is designed to do just that.

Thank you, Mr. Chairman.

[Secretary Shultz' prepared statement follows:]

PREPARED STATEMENT OF HON. GEORGE P. SHULTZ

Mr. Chairman and distinguished members of this committee,

I know that we agree on the need for prudent investments abroad to enhance our national security, promote economic and political freedom, and reflect the humanitarian concerns of the American people. Foreign assistance is such an investment. Yet our foreign assistance request for FY 1986 comes before this Committee at a time when this Administration and the Congress are committed to bringing our budget deficits down. As a former budget director, perhaps I am more sympathetic than most to the immense challenge this poses and the painful choices that will have to be made.

Recognizing the overriding importance of reducing the budget deficit, we have carefully constructed our economic and military assistance programs to a level and mix that represent the minimum requirements to support our foreign policy objectives.

At the same time, we must bear in mind that our foreign assistance programs are vital to the achievement of our foreign policy goals. A world of peace, freedom, international stability, and human progress cannot be built by the United States alone. We need the support and cooperation of the many friends and allies around the world who share our hopes and dreams of a better world, and who rely on us. And if we are to count on their support in facing the difficult and sometimes dangerous challenges of the modern world, we must ourselves be a reliable partner. We must be consistent in our devotion to the principles we cherish and proclaim: to promote prosperity, to defend freedom, to help build democracy and respect for human rights, to help alleviate suffering, and to protect our friends and allies against aggression.

In his State of the Union address, President Reagan noted that "dollar for dollar, our security assistance contributes as much to global security as our own defense budget." Strengthening our friends is one of the most effective ways of protecting our interests and furthering our goals. It gives them the ability and the confidence to defend themselves and to work for peace. If we are willing to pay the relatively modest cost and make the necessary sacrifices today, we can avoid far greater costs and sacrifices in the future. Foreign assistance is a prudent investment in our future, and the world's future.

When I appeared before this distinguished Committee last year, I sought to show how closely linked our foreign assistance programs are to our most fundamental foreign policy goals.

The events over the past two years have convinced me more than ever before that we are on the right track. We have strengthened our relationships with our friends in the developing world against Soviet expansionism. We have seen a number of developing countries move toward free and more open economies. Increasingly, the world recognizes that statist economic systems do not work. Free market economies do. And we have witnessed extraordinary progress in the growth of democratic institutions and in the decline of dictatorships, particularly in our own hemisphere.

It is no coincidence that along with the emergence of freer societies we see more open economies. One supports and reinforces the other. People, if they have a choice, want economic growth. They want prosperity. They need only the personal security and the political and economic environment that allows them to exercise their will and use their talents. Our support for the security and territorial integrity of our friends, therefore, advances the most basic human goals of prosperity and freedom. But it also advances another goal, peace. We have seen over the years that economic progress, individual liberty, and world peace are closely related. As President Reagan said in his Second Inaugural Address: "America must remain freedom's staunchest friend, for freedom is our best ally and it is the world's only hope to conquer poverty and preserve peace. Every blow we inflict against poverty will be a blow against its dark allies of oppression and war. Every victory for human freedom will be a victory for world peace."

Today we are seeing developments in the Third World which, if we continue to nurture them, will lead to a more secure and prosperous world. There will inevitably be occasional setbacks, but if we stay the course, I believe the emerging pattern of stable and democratic governments will slowly but inexorably grow and be strengthened.

Much remains to be done. The most effective contribution we can make to the developing world is to maintain a healthy American economy. Our economic growth rate in 1983 was a prime reason for the sharp increase in U.S. imports from the non-OPEC developing countries to $92.3 billion, some 24% over the previous year. The developing nations will reap even more substantial benefits from the vigorous growth of our economy in 1984.

More than any other factor, however, the domestic policies of these countries will determine the strength and sustainability of their economies and their political institutions. Our foreign assistance can provide those critical incremental resources to help them achieve these objectives.

With this framework in mind, we have engaged in an exhaustive budget review process to assure that the sum of our resources and each individual component are the absolute minimum essential to implement and support our foreign policy.

Overview of 1986 Budget

The FY 1986 budget request for the International Affairs Function is $19.3 billion. Of that amount, the foreign assistance request totals $14.8 billion, a $300 million reduction from the FY 1985 Continuing Resolution level. As I will explain later, we have yet to determine the economic assistance level for Israel. When that assistance figure is eventually included, our request will be higher than the previous year. Economic assistance, which includes Development Assistance, PL 480, the Economic Support Fund, and contributions to multilateral development institutions, accounts for $8.2 billion. Military assistance, which includes military grants, loans, and training, totals $6.6 billion.

The remaining $4.5 billion requested for the International Affairs Function principally finances the operation of the Department of State, USIA, the Export-Import Bank, the Board of International Broadcasting, our assessed contributions to international organizations, contributions to U.N. peacekeeping activities, and U.S. participation in multilateral international conferences.

Within the International Affairs Function, some appropriation accounts would receive an increase under our request, while others would decline. The function 150 total, however, is well below the FY 1985 enacted level. This will remain true even with an add-on for Israel that we may request in the coming weeks. These increases and decreases among individual appropriation accounts reflect the priorities of the Administration and the "budget freeze" philosophy that was applied to this year's budget process. They also reflect our efforts to distribute our scarce resources in a way that will maximize our foreign policy returns and help meet the pressing development and security needs of our strategic partners. Our FY 1986 foreign assistance request contains only one modest new initiative--an enhanced economic aid package for the Andean democracies of Ecuador, Peru and Bolivia. With that one exception, our 1986 budget request by and large represents a continuity program, reflecting both the overall fiscal constraints under which we are operating and the fact that many of our earlier initiatives--especially in Central America--are now well underway and beginning to show progress.

As in the past, the largest single component of our foreign assistance request is for Israel and Egypt--twenty eight percent (28%) of the total. This percentage, of course, will be higher when we include economic assistance funds for Israel. Assistance to base rights countries--Spain, Portugal, Greece, Turkey and the Philippines--accounts for an additional sixteen percent (16%), while military access and frontline states such as Korea and Thailand take up another thirteen percent (13%). Central America and the Caribbean represent another eleven percent (11%) of the request. All other country programs account for only twelve percent (12%) of the total resources requested. This twelve percent, however, is spread among more than eighty separate countries and regional programs. Finally, contributions to multilateral development institutions and voluntary contributions to international organizations and programs make up ten percent (10%) of the request, with the remainder of the amounts requested going to the Peace Corps, migration and refugee assistance, international narcotics control activities and a number of smaller programs.

Turning to the specifics of our request, I would like to make the following brief observations:

-- In Development Assistance, we are requesting $2.1 billion to attack serious conditions of poverty in Africa and Asia, Latin America and the Near East, and to help establish the basic conditions for economic progress. We place heavy emphasis on policy reform, greater use of the private sector, and on technology transfer to foster development breakthroughs. These economic programs are a critical aspect of our overall foreign policy objectives.

-- Closely related to the Development Assistance request is a request for $1.3 billion in PL 480 for food assistance and balance of payments support to friendly governments. Food aid remains the centerpiece of the American people's humanitarian response to the tragic famine conditions in Africa.

-- The $2.8 billion requested for the Economic Support Fund is $1 billion below the amount appropriated in the FY 1985 Continuing Resolution. This is due in part to the fact that we have deferred making any ESF request for Israel at this time. I will elaborate on the question of economic assistance to Israel later in my remarks.

-- Our request for military assistance--that is, direct Foreign Military Sales credits and grant MAP--is $860 million more than was appropriated in 1985. Most of this increase, $525 million, is accounted for by higher levels for Israel ($1.8 billion as opposed to $1.4 billion in 1985) and Egypt ($1.3 billion as opposed to $1.2 billion). In addition, our military assistance request for Turkey has been increased from the 1985 level of $700 million to $785 million. For the Philippines, we are requesting a $75 million increase over the FY 1985 level.

-- The $2.9 billion request for the State Department budget includes critically important funds to enhance our security program in the face of increasing terrorist threats against U.S. personnel and facilities. Additional funds are also requested to expand and improve the Department's ability to obtain and interpret foreign policy information.

The Regions

Latin America and the Caribbean

Mr. Chairman, nowhere has the linkage between foreign assistance and U.S. national interests -- and between democracy and economic opportunity -- been better illustrated than in Latin America and the Caribbean. The past year has provided clear evidence that democratic development, and the rejection of the Communist left and the far right, are the keys to enduring peace and improving standard of living for all.

Our policy of lending political, economic, and military assistance to pro-democratic forces is working. Let us look at the record.

In 1979, four of the five Central American countries were undemocratic. Six years have produced dramatic change. Nicaragua remains under a dictatorship -- having traded a tyrant of the right for the tyranny of the left -- and Costa Rica remains thoroughly democratic -- though increasingly and justifiably concerned about its heavily armed Communist neighbor. But, an unprecedented transformation has taken place in the rest of Central America.

El Salvador has undergone the most dramatic change. As recently as a year ago, the country appeared caught in an endless war between guerrillas of the left and death squads of the right. But as the National Bipartisan Commission on Central America found, electoral democracy and political dialogue -- not externally imposed "power sharing" between guerrillas and governments -- proved to be the practical basis for attacking the seamless web of El Salvador's political, economic, social, and security problems. In turn, increased economic and security assistance were necessary to give democracy, reform, and economic revitalization a fighting chance.

Last year demonstrated that President Duarte's course was the route most likely to lead to greater respect for human rights and a better life. The Salvadorans themselves made the point in two rounds of national elections in 1984. And they did it again in a different dimension when a civilian jury found five former National Guardsmen guilty of the murders of the four American churchwomen. Support for this democratic renewal was backed unanimously by the National Bipartisan Commission, by President Reagan, by a bipartisan majority in the Congress, and in Europe by Social Democrats as well as Christian Democrats.

It would be naive to claim that all is now reformed, centrist, and peaceful in El Salvador. But the progress is significant and undeniable. U.S. firmness on principle and steadfastness on behalf of our Salvadoran friends has had a lot to do with it.

The recent history of Guatemala exemplifies the strength of the currents of change in the region. The country conventional wisdom has often ranked as "the most polarized" or with the "least chance of democratic development" in Central America has confounded the conventionalists. The Constituent Assembly elections seven months ago were not only widely accepted as honest and open, but -- to the surprise of many -- revealed that centrist forces constitute the political majority. Elections for President, Vice President, Congress and local offices have been set for October. It is encouraging that the Guatemalans are moving in this direction almost exclusively on their own.

There is one issue, however, on which considerable controversy still reigns: Nicaragua. While we are promoting democratic reform throughout Central America, the Sandinista leaders in Nicaragua are moving quickly, with Soviet-bloc and Cuban help, to consolidate their totalitarian power. Should they achieve this primary goal, we could confront a second Cuba in this hemisphere, this time on the Central American mainland -- with all the strategic dangers that this implies. If history is any guide, the Sandinistas would then intensify their efforts to undermine neighboring governments in the name of their revolutionary principles -- which Fidel Castro himself flatly reaffirmed on American television several weeks ago. Needless to say, the first casualty of the consolidation of Sandinista power would be the freedom and hopes for democracy of the Nicaraguan people. The second casualty would be the security of Nicaragua's neighbors, and the security of the entire region.

I do not believe anyone in the United States wants to see this scenario unfold. Nicaragua's immediate neighbors -- Costa Rica, El Salvador and Honduras -- have been increasingly emphatic in telling us how dangerous to them that scenario would be. Yet there are those here who would look the other way, imagining that the problem will disappear by itself. There are those who would grant the Sandinistas a peculiar kind of immunity in our legislation -- in effect, enacting the Brezhnev Doctrine into American law.

The democratic forces in Nicaragua are on the front line in the struggle for progress, security, and freedom in Central America. Our active help for them is the best insurance that their efforts will be directed consistently and effectively toward these objectives.

Communist dictatorships feel free to aid and abet insurgencies in the spurious guise of supporting "liberation". Democracies, the true target of this threat, must not be inhibited from defending their interests and the cause of democracy itself.

Peace and economic development in Central America require both the reliability of multi-year funding and the confidence that this long-term commitment will continue to be tied to equity, reform, and freedom. Bipartisan support is essential if the Central America Initiative is to address the Bipartisan Commission's call for a commitment through 1989 to provide --in a consistent predictable way -- a balanced and mutually reinforcing mix of economic, political, diplomatic, and security activities.

This initiative is designed to use economic aid, coupled with sufficient policy reform, to eliminate the root causes of poverty and political unrest. Much work is already underway. Discussions are taking place with recipient countries concerning macro-economic adjustment. Progress has been made toward economic stabilization. Regional technical training programs will begin in April. We have begun to work with governments and non-governmental organizations seeking to improve the administration of justice. A trade credit insurance program has been set up through AID and the Export-Import Bank. The revival and strengthening of the Central American Bank for Economic Integration is being studied. And we are working to assist in the revival of the Central American Common Market.

The democratic trend in the Andean region has been equally impressive. All five countries have democratically elected governments. But like their Latin neighbors to the north, many of their economies are being seriously challenged.

Ecuador, Peru, and Bolivia, have been particularly hard hit by the recent global recession. Their difficulties have been exacerbated by catastrophic weather conditions, sagging prices for their main exports, and, in Peru, a vicious Maoist guerrilla movement.

These countries deserve our help and it is in our interest to help them. We are proposing a special Andean program principally supported by $70 million in Economic Support Funds to assist these countries in their recovery efforts.

A democracy incapable of addressing major economic problems will be no more permanent than the dictators of the right or left that it has replaced.

We are encouraged that our neighbors in Latin America for the most part are taking the necessary and often painful steps to ensure economic revitalization. They have lowered government expenditures, bringing them in line with government income. They have restricted imports of non-essential goods to save foreign exchange. They have adjusted their exchange rates to reflect economic reality and breathe new life into their export sectors. They have worked with the international financial community to restructure their debts and ensure continued orderly debt servicing. They have reallocated scarce resources even as those resources fell.

The efforts are beginning to show results. The trade balance for Latin America with the rest of the world has improved significantly, recovering from a negative $2 billion in 1981 to an estimated positive $37.6 billion in 1984. Vigorous U.S. economic growth in 1984 created new export opportunities. There also has been growth in real per capita income of about 0.2 percent in 1984 -- not much, but better than the decline of 5.8 percent in 1983 and 3.3 percent in 1982.

The Caribbean Basin Initiative is showing some positive signs. U.S. non-petroleum imports from the region for the first 11 months of 1984 were up 19 percent over 1983. The open U.S. market continues to offer substantial opportunities for the region's exports.

In Latin America and the Caribbean, I believe that the Administration and the Congress have reason to conclude that the policies we have been following the last four years are succeeding. The best option for the next four years is to continue these efforts based on firm, bipartisan support.

The lessons from the recent past and the guidelines for the near future can be condensed into an assertion: The skeptics were wrong about El Salvador, they were wrong about Grenada, and they are wrong about Nicaragua -- and all for the same reasons. Mr. Chairman, what the Administration and the Congress have learned together about Central America in the recent past provides a mandate for the future. The Administration cannot fulfill that mandate without the active support of the Congress. If you and we do not stand firmly on principle and with our friends, we will both lose. A lack of policy consistency would be a significant obstacle to achieving our national objectives in this region over the next months and years.

Africa

I turn now from the promising developments in Latin America to a region where problems continue to be grave. Africa's desperate economic state is more in the public eye than it has ever been. I would like to devote the major portion of my discussion of Africa today to the economic crisis. In doing so, I do not mean to minimize the relationship between economic development and the national security of African states. Security assistance remains essential for many African countries. States threatened by Libyan adventurism or Soviet-armed hostile neighbors cannot devote the energy or resources necessary to economic development. And economically fragile societies are most vulnerable to subversion and attack.

Our total FY 1986 request for Africa is just over $1.2 billion. Of that amount 17% is for military-related assistance, roughly the same amount as in FY 85. The overwhelming majority - over one billion dollars - is for economic assistance. While the military component is small,it is nevertheless extremely important if we are to continue the programs of logistics support and training that we have started and if we are to provide the bare minimum in the way of defense equipment for our friends facing threats. The proximity of the Horn of Africa to the Middle East and vital oil shipping routes in the Red Sea and the Indian Ocean adds a critical strategic dimension to our interests in creating a politically stable and economically viable environment in the region. Consequently, we are seeking the resources necessary to assist Sudan, Kenya, Somalia, and Djibouti cope with their flat economies and to help Sudan and Somalia counter the very real threats to their security.

In southern Africa we continue to work diligently toward a just and lasting settlement for Namibia based on UN Security Council Resolution 435, for continued change in the repugnant system of apartheid in South Africa, and for the economic and political stability of the region in general. The funds that we are requesting for programs in southern African countries will enable us to strike directly at the causes of the economic difficulties of the region. In southern Africa, as in East Africa, we intend to thwart the destabilizing influence of the Soviet Union and East Bloc by providing economic assistance and by offering an alternative to Soviet and East Bloc military assistance and training. Mozambique has demonstrated a real intent to move away from heavy dependence upon the Soviet Union and toward a position of true non-alignment. The small MAP and IMET programs for Mozambique are of particular importance in encouraging this process.

In West Africa we have recently seen the spread of both the effects of the drought and long-term economic stagnation and Libyan adventurism. Our assistance is targeted against both the near-term crisis and the long-range effects of the economic crisis.

I would like to focus specifically on the two most urgent crises facing Africa today: famine and economic stagnation. During recent months, untold thousands of Africans have perished. We estimate that some 14 million Africans remain at risk. If they are to survive, they need urgent assistance in terms of food, medical care, and shelter.

There is also the broader problem of malnutrition. An estimated 20 percent of Africa's population eats less than the minimum needed to sustain good health. Africa is the only region in the world where per capita food production has declined over the past two decades -- a combination of a drop in productivity and rapidly growing population. Africa's food dependency on outside sources has been growing at an alarming pace, with African commercial imports of grain increasing at a rate of nine percent per year during the past twenty years.

In addition to the current severe food crisis, Africa's disappointing economic performance has made it difficult for most African countries to service their debt, propelling many countries from one financial crisis to another. The economic crisis has required that African nations regularly seek debt rescheduling. Ten of the fourteen Paris Club reschedulings in 1984 were for African countries.

The United States has mounted an unprecedented campaign to provide both economic and emergency food assistance to Africa In this effort, we have not allowed political or ideological differences with any government to weaken our determination to direct assistance to those in need. Since October of last year, we have committed more than $400 million to send over one million tons of emergency food and other types of humanitarian assistance to Africa. If we add our regular AID food programs, then our total food assistance for Africa is even larger -- almost 600 million dollars thus far this fiscal year. I think we can be justifiably proud of what we have been able to accomplish in such a short period of time. I assure you that our response will continue to be a generous one.

Equally impressive has been the direct response of the American people and the private sector. Through generous contributions to private voluntary agencies, many thousands of additional lives have been, and continue to be, saved. Volunteers for these agencies are directly involved in distributing food, medicines, clothing, and shelter and caring for drought victims in the most remote parts of Africa, enduring extreme hardships and even risking their own lives. Such humanitarian assistance is in the best tradition of America and the values for which America stands.

Public attention has focused on the immediate drought crisis, but it is apparent that Africa's economic difficulties have a profound origin that goes back many years.

Drought has aggravated the problem, but is not the principal cause of Africa's economic crisis. Many of the African governments recognize that past policy failures have contributed to the current economic crisis. While we seek to address the immediate crisis, therefore, we must also seek more sustainable solutions to Africa's economic problems. The United States has been in the forefront of those seeking to help African countries move from a statist economic orientation to one which allows market forces to operate freely and which provides appropriate price incentives, particularly to the small farmers. Structural issues which are being addressed include inefficient parastatals, overvalued exchange rates, negative interest rates on bank deposits, uneconomic subsidies to consumers and artificially low prices to producers. In addition to the emergency assistance to meet the drought and famine needs, U.S. economic assistance levels for Africa have increased from $787 million in FY 1981 to over $1 billion in FY 1985; For FY 1986 we are again asking for a total of $1 billion in economic aid. The Administration has established two new programs to assist African governments to undertake desirable reforms.

Last year the Administration requested $75 million as the first step in a five year $500 million program designed to provide additional financial support for selected African countries who are undertaking significant economic reforms.

We are currently discussing use of these funds for possible programs with four African countries: Zambia, Malawi, Mali and Rwanda, and may choose a fifth country later. In each of these four countries our programs will facilitate and accelerate major policy reforms designed to stimulate economic growth through agricultural production and reduced governmental impediments to efficient utilization of limited economic resources.

In our FY 86 budget submission we are seeking a second appropriation of $75 million. Economic reform has become a major part of our dialogue with all African countries, and facilitated with many aspects of our regular program. However, implementing some of these reforms requires timely support of flexible funds, not tied to other long-term projects. This is what this $75 million is for. The experience of the past few months indicates that there is major international support for this program in Africa and in other donor countries.

The flexibility provided over this program has permitted us to have an impact on policies of donors and recipients alike which far exceeds the modest amount of funds involved in this request. I can think of no other single aspect of our assistance activities which more directly bears on the factors that have contributed to what is commonly called "the African Economic Crisis". An increasing number of African countries are beginning to alter in a fundamental way their national economic policies. Above all, the relevance of free market economies as opposed to statist solutions has become clear to African leaders as never before.

I might just add that our perception of the roots of Africa's current economic crisis is widely shared by the international community. We are particularly pleased with the World Bank's latest report on sub-Saharan Africa and its stress on the need for economic reform to reverse Africa's economic decline. The World Bank recently launched its own Special Facility which will provide financial support to reform-minded countries -- a facility which complements and reinforces our efforts.

The "Food for Progress" initiative recently announced by the President is also targeted at achieving policy reform, but exclusively in the agricultural sector. This initiative would use food aid in strategically important African countries to promote reform in the key agricultural sector, stressing market approaches in agricultural pricing, marketing, and the supply and distribution of fertilizer, seeds and other agricultural inputs. One of the goals of the initiative is to supply American food to reform-minded countries on a multi-year basis. The sale of the commodities on the local economies would provide resources for the governments to use in supplying needed incentives and inputs to the farmers while easing the effects on urban consumers of moving toward a market economy. The details of this proposal, including funding levels and sources, will be transmitted to the Congress shortly.

Near East and South Asia

One of the most important foreign policy goals of this Administration is to help achieve a lasting peace between Israel and its Arab neighbors. There are no quick and easy solutions for peace in the Middle East, but our assistance plays a crucial role in furthering the peace process.

In recent weeks, there appears to have been movement in the region of the type which, if sustained, could facilitate Jordanian entry into direct negotiations with Israel based on UN Security Council Resolution 242. Israel's Prime Minister Peres has welcomed Egyptian President Mubarak's call for direct negotiations between Israel and a Jordanian-Palestinian delegation. Saudi Arabia's King Fahd and President Reagan, in their recent discussions, agreed that a stable peace must provide security for all states in the area and for the exercise of the legitimate rights of the Palestinian people. We will support any practical effort to move the Arab-Israeli dispute to the negotiating table, the sooner the better.

Israel and Egypt remain our principal partners in the quest for peace, and these two nations would be the largest recipients of our proposed foreign assistance for Fiscal Year 1986. Our economic and military assistance programs are needed to strengthen Jordan's security and economy, both of which are vital to enable Jordan to confront the risks involved in playing a significant role in the peace process. Our relationships with Saudi Arabia and the Arab Gulf States are important elements in our efforts to advance the peace process and, as I will mention later, to protect our interest in the Persian Gulf.

The United States has a commitment to Israel's security extending over three decades. Our security assistance proposal aims to ease the onerous burden Israel shoulders in meeting its defense needs. The Fiscal Year 1986 Foreign Military Sales (FMS) program will enable Israel to maintain a qualitative military edge over potential adversaries in the region. Further progress towards peace depends in part on Israel having sufficient confidence in its ability to withstand external threats but also confidence in U.S. support and assistance. For these reasons, we are recommending a significant increase in Foreign Military Sales on a grant basis for Israel.

The U.S. and Israeli governments agreed last October to establish a Joint Economic Development Group to review economic developments in Israel, the role of U.S. assistance in support of the Israeli adjustment program, and Israeli longer-term development objectives. At a meeting in December, Israeli government officials presented the annual White Paper outlining Israeli economic objectives and assistance requirements for the remainder of this fiscal year and for FY 1986.

Our security assistance is a reflection of the U.S. commitment to Israel's security and economic well-being. In addition, we have indicated our willingness to provide extraordinary assistance in support of a comprehensive Israeli economic program that deals effectively with the fundamental imbalances in the Israeli economy. Without such a ~~reform~~, program, however, additional U.S. assistance would not resolve Israel's economic problems but merely help perpetuate them. Moreover, without economic adjustment Israel will become even more dependent on U.S. assistance in the future. The Israeli government has made some considerable progress to date in developing an adjustment program. But further progress is necessary if their program is to put Israel back on the path of economic health and additional U.S. assistance is to have a durable effect. Accordingly, the Administration intends to hold open for the time being the amount and form of ESF which we will be requesting from the Congress pending further discussions with Israel and further evolution of its stabilization program.

We held a series of very useful discussions recently with Israeli Minister of Finance Modai on Israel's current efforts and those it hopes to take in the future. These discussions were a very useful contribution to our dialogue, which is continuing, and a step forward in our consideration of how additional U.S. economic assistance could support an effective Israeli stabilization program.

Our discussions will continue to focus not only on short term stabilization measures, but also on Israel's longer range development objectives so that Israeli citizens can have confidence in a brighter, more prosperous future. We agreed during Prime Minister Peres' visit last October to work together to promote foreign investment in Israel, particularly in the high technology area where Israel has a comparative advantage. Both governments are examining existing programs and frameworks which might help to improve Israel's investment climate and attract venture capital from abroad. It is clear that in Israel's case -- as in other countries -- mobilizing both domestic and foreign venture capital depends on an atmosphere that encourages private enterprise, appropriate tax structures and market pricing policies. Private sector initiatives hold the greatest promise for helping Israel achieve its development goals, and we are encouraged by the interest that has been generated in both countries. Our real objective is to support Israel's own efforts to seize the opportunity to establish the fundamental conditions for economic growth in an age of new technology.

Mr. Chairman, I cannot tell you how much I admire the great efforts that Prime Minister Peres and his colleagues have been making in struggling not only with Israel's current economic problems, but other problems in Lebanon, in the peace process, and in their relations with Egypt. Even with all the difficulties in the economy now being faced, I have complete confidence that in the end these problems will be resolved and we will see emerge a healthy, strong and developing Israeli economy with strong leadership there from Prime Minister Peres and his colleagues.

The Camp David accords and the Egyptian-Israeli peace treaty remain the cornerstone of our Middle East peace policy. Egypt has demonstrated its firm commitment to those accomplishments by repeatedly refusing to disavow them as a price for resuming its historic leadership role in the Arab world. Our assistance helps ensure that Egypt will remain strong enough to continue to resist the pressures of radical forces which seek to undo what has been achieved. Egypt remains an important force for moderation and stability not only in the Middle East but also in Africa, where it plays an important role in helping African states deter Libyan adventurism. Egypt's ability to continue this deterrent role depends heavily on our assistance. The FY 1986 Foreign Military Sales Program has been increased to enable Egypt to continue replacing obsolete Soviet equipment and remain a credible deterrent force in the region.

Another major U.S. interest in the Middle East is to maintain free world access to the vital oil supplies of the Persian Gulf now and in the future. The Persian Gulf countries produce over 25% of the free world's oil supply. Through our assistance, we help to improve the security of our friends in this area. Oman is cooperating closely with the U.S. toward our common goal of maintaining security and stability in that vital area and freedom of navigation through the Strait of Hormuz: Oman's agreement to permit access to its facilities represents a key asset for the U.S. Central Command. Although not recipients of U.S. financial assistance, the other Gulf states and Saudi Arabia, as members with Oman in the Gulf Cooperation Council, have shown the will and the ability to defend themselves against encroachment of the Iran-Iraq war. The Administration is embarking on a comprehensive review of our security interests and strategy in the area, focusing on how our various programs in the security field complement our efforts in the peace process and contribute to the general stability of the region.

In North Africa we have longstanding and close relationships with Morocco and Tunisia as firm friends and strategically located geo-political partners. Morocco, with whom we have transit and exercise agreements, and Tunisia are both in difficult economic circumstances. Our assistance program in Morocco, in concert with other donors, is designed to help the Moroccan Government as it implements necessary economic reforms. We have expressed to the Government of Morocco our disappointment over the unwelcome development of the Libya-Morocco treaty of August 1984. Qadhafi's aggression against neighboring states and his undiminished support of terrorism and subversion worldwide are continuing causes of concern. We have registered these concerns with the Moroccans and told them that we discount the possibility that association with King Hassan could influence Qadhafi constructively. Despite differing views on how to deal with Qadhafi, however, the economic and political rationale for this assistance to Morocco remains; indeed it is stronger.

South Asia

A major foreign policy objective in South Asia is to obtain a negotiated settlement to get the Soviet Union out of Afghanistan so that the refugees can return and Afghans can exercise their own sovereignty and independence. In our efforts to achieve this goal, it is vital that we help ensure the security of Pakistan in the face of Soviet intimidation. Our six-year assistance program for Pakistan serves this goal. It is designed to support Pakistan's economy and its development and to help strengthen its defenses through provision of military equipment and training.

The U.S. has several important goals in South Asia. We seek to prevent conflict among the major states of the region; to help the region develop economically, and to foster the success of democratic institutions. India, the largest democracy in the world, plays a pivotal role in the peace and stability of the region. Our development assistance program for India will concentrate on more sophisticated research and higher technical training, building on India's strong scientific and technological base. Our assistance programs in Bangladesh, Sri Lanka and Nepal demonstrate U.S. support for the moderate non-aligned policies and economic development of these countries.

Europe

Security assistance proposals for the European region are designed to redress the military imbalance in Europe and counter the increased Soviet military threat in Central Europe and in Southwest Asia. The assistance supports key NATO allies and has the dual result of providing the U.S. with continued access to important military bases and helping these countries modernize their own military capabilities. By so doing, our security assistance sustains confidence in our best efforts commitments which are the foundation of base agreements.

U.S. foreign policy objectives in Spain are to support Spanish democracy, to encourage Spanish movement towards a more open economy, and to contribute to Western defense by assuring continued U.S. access to vital air and naval facilities in Spain. The security assistance program plays a key role in achieving these objectives.

The Spanish military has assumed a role appropriate for armed forces in a democracy. Our assistance is necessary to help Spain meet its goal of modernization to NATO standards and to provide tangible evidence of the benefits Spain receives as a partner in the Western alliance, as demonstrated by its bilateral relationship with the U.S. as well as its participation in NATO. Our security assistance program thus plays an important role in helping Spain to consolidate and strengthen its new democratic institutions.

Prime Minister Gonzalez' government has taken politically difficult steps to open Spain's traditionally protectionist economy to market forces. This decision was particularly courageous since Spain's economic austerity program has been accompanied by high unemployment. But as a result, the Spanish economy has shown impressive improvement in 1984. Its economic program would have placed a much more onerous burden on the Spanish people without our support. The security assistance program helps in modernizing the economy through scientific and technical exchanges and permits Spain to continue its economic recovery without jeopardizing its military modernization.

Our objectives in Portugal are similar to those in Spain. Portugal is striving to consolidate its 10-year-old democratic institutions while it assumes an expanded role in western political and military structures. It is also pursuing a demanding economic austerity program in an attempt to reform its troubled economy, which is the second poorest in western Europe. The U.S. security assistance program assists Portuguese economic development efforts and permits Portugal to continue its program of military modernization aimed at assuming expanded NATO defense responsibilities.

U.S. security assistance to Portugal therefore provides both real and symbolic support for Portugal's attempt to strengthen its democracy and free-market economy. It provides a cornerstone for Portugal's attempts to play a more effective role in NATO. It also serves to meet the assistance goals to which the U.S. is committed under the 1983 agreement.

Our security assistance to Greece and Turkey contributes to important strategic policy objectives on the southern flank of NATO. Turkey's position between the Soviet Union and the Middle East and proximity to southwest Asia make it a natural barrier to Soviet expansion into the Middle East and the Persian Gulf. The Soviet invasion of Afghanistan, the Iran-Iraq War and the disintegration of Lebanon highlight the importance of a politically stable and militarily credible Turkish ally in this disturbed region. We also benefit from our military relationship with Turkey by our use of extremely valuable military and intelligence facilities. The United States accordingly has a compelling interest in enhancing Turkey's ability to meet its NATO commitments and deter potential aggression in Southwest Asia through provision of security assistance.

Our interests are not confined to NATO security objectives. We have sought the cooperation of the Turkish Government in promoting a settlement on Cyprus. The Turkish Government accepted and supported the U.N. Secretary General's initiative. We are now working with all the parties to ensure that efforts in the wake of the recent summit in New York to reach a settlement between the Government of Cyprus and the Turkish Cypriot community can move forward. Accordingly, we believe that any attempt at one-sided efforts to impose conditions regarding Cyprus on security assistance to Turkey would not only be unwarranted but would set back the prospects of a settlement on Cyprus.

On the economic side, Turkey has taken far-reaching and courageous steps to stabilize and liberalize its economy. U.S. concessional aid to Turkey is directly and constructively related to Turkey's efforts to create a freer and more sound economy.

We are also seeking a substantial level of security assistance for Greece. We have our differences with the Greek government. We want a better relationship with Greece, but the Greek government has to do its part as well. We recognize Greece's strategic importance in the eastern Mediterranean. We derive important benefits from our military facilities. Our security assistance program is an important element in our relationship with Greece. It is exceeded only by our request for Israel, Egypt, Turkey and Pakistan.

East Asia and Pacific

Foreign assistance is an investment in the future that can benefit both recipient and donor. This is particularly evident in the East Asia and Pacific region where the returns paid on our foreign assistance investment have been enormous. For some 20 years East Asian countries have achieved higher economic growth rates than any other region of the world. They have achieved these remarkable results principally by relying on the dynamism of free market systems. As a result of this rapid economic growth, the region now accounts for more of our foreign trade than any other region of the world. Since former aid recipients in the region have reached the stage of development where they no longer need bilateral aid, and in some cases have become aid donors themselves, East Asia and Pacific countries now account for only a small portion of our worldwide assistance programs despite the vital importance of the region to the United States.

In spite of this generally bright picture, the region still has pressing economic and security problems that we must confront. The Administration's FY 1986 foreign assistance request for East Asia and the Pacific that addresses these problems totals approximately $818 million. The requested economic assistance of $235 million will be concentrated in the three largest members of the Association of South East Asian Nations, the Philippines, Indonesia, and Thailand. The bulk of the $483 million requested for military assistance will go to deter direct military threats to Korea and Thailand and to enhance our close military relationship with the Philippines, a treaty ally. We also propose modest assistance programs in other ASEAN countries, in Burma, a country that has become increasingly important to our anti-narcotics efforts, and in the islands of the South Pacific. I would like to highlight some of our specific concerns.

The Philippines has passed through difficult times that have adversely affected the economy. The government has begun to take corrective measures and has concluded an economic stabilization agreement with the International Monetary Fund. These actions are encouraging, but more has to be done to turn the economy around. The Philippine situation is further clouded by a growing armed insurgency by the New People's Army, the military arm of the Communist Party of the Philippines, which has been able to exploit the country's political, economic, and social difficulties. The revitalization of democratic institutions, the establishment of long-term growth through structural economic reform, the maintenance of our vital security relationship, and the successful resistance to a communist takeover of the Philippines are intertwined. Our integrated economic and military assistance program is designed to support all of these objectives.

Like the Philippines, Thailand is a treaty ally of the United States. It is also a front-line state that faces serious security challenges caused by Soviet supported Vietnamese aggression in neighboring Cambodia. Our security assistance to Thailand supports the government's efforts to improve social and economic conditions in the war-affected Thai-Cambodian border areas that have experienced a large influx of refugees because of continued brutal attacks by Vietnam. The on-going Vietnamese military offensive along the Thai-Cambodian border and frequent Vietnamese forays into Thailand underscore the importance of modernizing Thailand's defense forces to provide a deterrent to further Vietnamese aggression.

The specific efforts of the Philippines and Thailand are reinforced by their membership in ASEAN, which represents the best hope for peace and stability in Southeast Asia. Consistent with our strong support for ASEAN and in recognition of the importance of our relationship with Indonesia, we have also proposed economic and military assistance for that nation. Indonesia has continued to make good progress in its development program and maintaining sound economic policies in the face of an international recession. Our military sales to Indonesia have enhanced our common strategic interests in Southeast Asia. We also plan to continue the ASEAN regional technical assistance program. In another ASEAN member, Malaysia, where U.S. private investment continues to be a major catalyst of economic growth and development, the government has expressed interest in continued defense cooperation with the United States within the context of that nation's non-aligned status. Malaysia has played a constructive role in international affairs and has forcefully advanced ASEAN's strategy to bring about a withdrawal of Vietnamese forces from Cambodia. We propose to continue our modest military assistance program in support of these efforts.

Another important U.S. treaty ally is the Republic of Korea. The prevention of North Korean aggression against South Korea is indispensable for peace and stability in the region and important to our own security. So far we have been successful in deterring aggression and preventing a recurrence of hostilities on the Korean peninsula. To maintain our support for the U.S.-ROK alliance we propose to continue an FMS credit program that will permit the ROK to improve the capabilities of its combat forces, many of which are stationed with our own forces along the DMZ and would operate with us under a joint command in time of war.

I now want to emphasize the importance the Administration places on proposed legislative action that will require no additional appropriation under the bill you are considering. Our expanding economic, scientific, and cultural ties with China have been mutually beneficial and have become a very important element in our overall relationship. Consistent with this growing friendly relationship, the President has sought changes to laws that link China with the Soviet bloc. I am pleased to note that, with your support, important progress was made in this effort. Last year we proposed the elimination of the prohibition on assistance to China to permit us the flexibility to provide some assistance -- such as training -- if we so chose. This proposal was approved in both the House Foreign Affairs and Senate Foreign Relations Committees. The overall bill was not passed, however, for reasons unrelated to China. To remove this anachronism in our laws affecting China, I ask you to pass this proposal this year.

Multilateral Development Programs

Thus far I have stressed the vital role American bilateral assistance plays in promoting the security and stability of the developing world. As I am sure each of you appreciates, this task is far too great for one country to attempt to do alone. Fortunately, we do not have to. Our friends and allies in the industrialized world devote a considerable amount of their resources to the task of promoting the development process, which in turn yields dividends in the expansion of economic trade and strengthening of democratic institutions. These resources are becoming too scarce to allow for inefficient use of any kind. A coordinated approach among donors has always been desirable. It is now critical.

The principal tool available for such coordination is the pooling of a portion of our economic assistance through the multilateral development banks (MDBs) and the development programs of the United Nations and the Organization of the American States. MDB lending remains a significant and growing source of investment capital for developing countries. In FY 84, MDBs together committed $22 billion in new loans. That a lending program of this size was sustained with a U.S. paid-in contribution of $1.3 billion testifies to the advantages of using the MDBs to share the burden of providing aid. The U.S. benefits directly from the MDBs efforts to promote strong and sustained progress in the developing countries through increased sales of U.S. goods and services. Indeed, a significant portion of the U.S. trade deficit can be attributed to the decline in purchases by debt-troubled developing countries, a decline which appropriate development assistance can help reverse.

While valuable as a source of development finance, the MDBs play an equally critical role by providing sound market-oriented economic policy advice to their borrowers. They also impose financial discipline on the development objectives of their clients. These institutions are devoting increasing resources to projects and programs designed to support private enterprise in the developing world. For many years, the World Bank's special affiliate, the International Finance Corporation, has focussed on the specific needs of the private sector. The regional development banks are beginning to follow the World Bank's lead. The strengthened commitment on the part of these institutions to private enterprise may prove to be one of the most important factors in supporting a successful development process.

We are convinced that the MDBs have a crucial role to play in advancing world-wide growth and development, and increasing the private sector contribution to that process. We thus consider our participation in them a necessary complement to our bilateral assistance policy. In recent years this Administration, acting in close consultation with the Congress, has sought to reduce the cost to us of providing an effective level of support to these institutions, while maintaining U.S. leadership. We have been successful in negotiating overall replenishment levels which we believe are adequate to the needs of borrowing members but also take into consideration our budgetary constraints. Maintaining U.S. leadership, however, depends on our meeting these obligations in a timely manner. I, therefore, urge Congress to support fully both our FY 86 request for $1.3 billion.

The United Nations and OAS programs for development also make valuable contributions to the development process. The role of institutions such as the United Nations Development Program (UNDP), the World Food Program (WFP), and UNICEF have complemented our bilateral efforts. We support these programs and continuously and forcefully seek to improve their effectiveness and efficiency.

Summary

In closing, Mr. Chairman, I would like to emphasize the basic theme of this year's budget presentation. We have a responsibility to stick with the policies that have worked or begun to work. Quick fixes, pulling back from the fray, or hoping for diplomatic miracles are not responsible options. But if we stand together, firmly, predictably and realistically defending our principles and our friends, and do so in the steadfast manner the problems require, then we can prevail. Our FY 1986 budget request is designed to do just that.

The CHAIRMAN. Thank you very much, Secretary Shultz.

The committee will conduct a round of questioning now in which each member will have 10 minutes to raise questions and receive answers.

Secretary Shultz, there has been considerable concern during this week in testimony before other committees about drug abuse, drug smuggling problems that we are encountering, sometimes with friendly nations. And the suggestion that in the event we are not receiving proper cooperation from those nations, that military or economic assistance ought to be withdrawn.

Can you give us your overview of that picture, and the degree of cooperation we are receiving, and any suggestions you may have with regard to how the legislation ahead of us—that is, the Foreign Assistance Act—ought to be applied with regard to specific countries?

Secretary SHULTZ. First, Mr. Chairman, I think it is a problem of tremendous importance to us. Second, it is clear that our efforts in working with other countries to eliminate the growing and the processing and the general trafficking in drugs, while having produced results, has not yielded the situation that we would like to see by a long shot.

So the question is: What should we do about it? It seems to me that we need to basically be guided by two things. First of all, we have to remember that this is one of those areas where demand creates its own supply. It is not technically difficult to produce drugs, so when there is a huge demand that is willing to pay all kinds of prices, you are going to have a difficult time controlling supply.

So one of the things we must do, and this is essentially a domestic effort, although each country, not just ours, faces this problem, is get control of the use of drugs. But second, interrelated is the work on the supply side. Here, countries that we are working with that face real difficulties but which are nevertheless making a very good effort, well, I think we should continue working with them. We do not get anywhere by just giving up and walking away. If there are cases where they are simply not willing to cooperate, that is something different, but I do not know of any governments that say they are not willing to cooperate.

The basic reason is not simply a concern for their relationships with us, but because the existence of a potential drug culture in their own country or even the existence of a drug production process and peddling process produces a group of people who have tremendous amounts of money on hand relatively, who are ruthless in the pursuit of their interest, and who take control of an area of a country and become a government within the government. Nobody wants that. No country wants that.

I think we can basically figure that we are going to have people who want to cooperate, but there are going to be cases where it is difficult to get the kind of results we want. So it is a hard problem, but I for one feel it is of such magnitude that we have no alternative but to work at it hard and continuously and insistently. And I personally put it up right up at the top of our agenda, and never fail to work at it and bring it up and make it clear that it is something of immense importance to us.

I plan toward the end of the month to have a chiefs of mission meeting in Florida with people from South America, the Caribbean, Central America, our Ambassadors, and this is going to be a topic of top concern with them.

The CHAIRMAN. Mr. Secretary, what are your criteria for deciding if Israel has made sufficient economic progress to warrant additional assistance to deal with its economic problems? At what point or by what criteria will you be able to make that judgment?

Secretary SHULTZ. I do not think you can set out certain things and say when this, that and the other thing happens that we would be prepared to make a recommendation. I think we basically see the new national unity government of Israel confronting a problem of immense difficulty. Mr. Peres did not create it. He inherited it. And it is tough.

Now, they have to cut their budget expenditures, because they have to cut their deficit, and I say cut the expenditures because they cannot get there from here by raising taxes. They are already on the downslope of the Laffer curve. If they raise the tax rates, they will collect less money. That is for sure. So they have got to cut expenditures. And we know from our own experience that that is tough, but they just have to do it. And they know that. And we have to help them.

I think to a considerable degree holding back helps them. We are too quick to say oh, well, if you cannot do it, we will do it. Then they will not, even with the best of will. It is harder for them then. So I think that we have to hold back.

I think second, or I might say by the end of this month I have been told they will pass a budget law that for the first time will give the finance ministry greater control over the other ministries in the ability to monitor spending and try to keep it so it comes in at the planned level. And they will, as I understand it, try to set up a monitoring system so they can track what is going on more carefully.

Second, I think they need to get control of the money supply, and here again, there is some legislation that I have been told—and I do not say this on my own part, just repeating what has been told to me, that by the end of April it may very well be passed—that gives the Bank of Israel a greater degree of independence from the finance ministry, so they can get better control of the money supply and will not simply be in the position of funding the deficit.

And third, I think they have to look at their international situation, and this means looking at the cross rates of the shekel with other currencies. They have a difficult problem there because they tend to relate themselves to the dollar, and their process of easy does it devaluation with respect to the dollar, with the dollar gaining strength against other currencies, means that they don't really devalue very much against other currencies, if at all, against European currencies. And since most of their trade is with Europe, it is a difficult point.

All these things are hard to do: Independent money supply, cut the budget, and deal adequately with currency values. I am very sympathetic, and I think they have made some very considerable strides.

I believe the most important thing in Israel really is to work on the longer run problem of creating conditions so that private investment comes to Israel, and they take part in the new technological developments that they have a comparative advantage in. And, in fact, if people see this on the horizon, it helps them accept the shorter term austerity measures that need to be imposed.

So these are all things that we are working on with them and watching with a great sense of sympathy. And I just think it is hard to say by any formula when you should do what. We want to be helpful.

The CHAIRMAN. Mr. Secretary, you have indicated—at least we believe you have indicated—that the Philippines will need to strengthen democratic institutions, modernize and reform the armed forces, and strengthen a free market orientation.

Have these goals been clearly communicated to the government of President Marcos so there can be no misunderstanding of what the United States is prepared to do and not prepared to do?

Secretary SHULTZ. Well, certainly we have stated those goals with him, yes, I think very clearly He doesn't particularly resist those goals.

The CHAIRMAN. And the understanding is that the increase that has been proposed by the administration in aid comes along with the good counsel that these three areas ought to be addressed?

Secretary SHULTZ. Certainly. I think we must remember that in addition to the kinds of things that you mentioned, we have two other considerations that have to be borne in mind. One is that there is a Communist-led insurgency in the Philippines, and we certainly do not want to see any movement in that direction. And second, we have bases of great strategic value to us, and so we must be conscious of the importance of those bases.

The CHAIRMAN. Thank you very much.

Senator Pell.

Senator PELL. Thank you very much, Mr. Chairman.

Mr. Secretary, when I mentioned earlier that we have reduced our development assistance by 6.8 percent and increased our military assistance by 12.8 percent, I was struck by these figures and wondered why they were not in reverse. I was wondering if you could give us your thinking as to why we increased the military assistance and reduced the development assistance. I would have thought we would have gone just vice versa.

Secretary SHULTZ. I would have to go through it case by case, but I think basically that is what you have to do. You have to look at each country and say what is the right thing to do here.

Now, take Israel. We have a big increase in the security assistance amount for Israel from $1.4 to $1.8 billion. That is a big percentage increase. We think it is called for by the situation. Actually, I think the percentages you cite may be somewhat thrown off for the same reason that I noted in my testimony, we do not have the economic assistance level for Israel in the budget—not that we think that the number should be zero, but just that we do not know what the number should be at this point.

And if you plug in that number, which will undoubtedly be a pretty hefty number, the percentages would probably be altered. I am sure they would be altered somewhat. But I think you have to go at it case by case, as I indicated.

Senator PELL. I think what we are talking here, though, is more development assistance, which does not include the ESF assistance. It is going down, and military assistance is going up, and when the Israeli assistance is plugged into it, I think you will find the military assistance will go up even further.

Secretary SHULTZ. I think the Israeli military assistance account is in the budget. That is a line item in the budget. On the fiscal 1986 economic assistance level we just have an asterisk in there. We do not show a figure. And as I say, that is not because we do not realize there is going to be a figure, but we do not know what it is.

Under Secretary Schneider has these numbers under better control than I do, so he will give the percentages.

Mr. SCHNEIDER. Senator, when you look at the composition of the foreign assistance accounts, the military assistance has been a relatively stable fraction of the budget, about one-third of the foreign assistance and two-thirds economic assistance. And the increases you refer to are dominated by the $400 million increase in military aid to Israel and the $125 million increase to Egypt.

Taking those out, the numbers are basically unchanged from fiscal 1985.

Senator PELL. Thank you. I want to relook at my numbers.

Mr. Secretary, on another subject, and that is a question that has been in the press a good deal, the dispute between General Chain and Les Gelb, which touches many of us because we remember Les Gelb not only as a good newspaper reporter, but also when he was part of the administration.

And I was wondering if you felt that any apology should be or had been extended to Les Gelb. What I read in the press, this is a man who has served our country well and loyally, and I think it was a gratuitous insult when General Chain made the remarks he did impugning his loyalty.

Secretary SHULTZ. Well, we are in a dispute about who should apologize to who around here. We think—well, I will not say "we." I will say what I think.

I think General Chain has called attention to a problem of tremendous importance and seriousness. Information is published every day that is harmful to the national security of the United States.

I was discussing this with a group of reporters the other day and one of them said: You know, if we dig out a deep, dark secret and publish it, that is good reporting. I said: You are mixed up; by my way of looking at it, that is terrible reporting. That is terrifying, to have that attitude.

Now, in the case of Les Gelb, he is a person of tremendous stature, great ability. I do not want to in anyway run him down, so let us put that sort of personal thing to the side. But he published an article that he started on as a result of something published in some other countries, that resulted apparently from the obtaining of a document, a highly classified document, by an individual whose identity we know.

And then Mr. Gelb was able to put the pieces together and publish an article in the New York Times. That article has done us a considerable amount of damage. I had a session with a foreign minister of Iceland. I stopped there briefly on my way back from Moscow. The subject comes right up. The President is going to Canada. We are trying to develop a better relationship with Canada. I imagine the subject is going to come up.

Now, Les Gelb has a special responsibility in my opinion, because he is so able and he is so well informed, and he is so well-respected, by me and others. I read what Les Gelb writes because I learn from it.

He also served in the U.S. Government in a post which is a particularly sensitive post. You find out about everything in that post. It happens to be the post presently being held by General Chain. That, the fact of that service lends special authority to anything published by somebody who held it.

Therefore, in my opinion I think, having held that post, you have a special responsibility, and I know Mr. Gelb tries to exercise that responsibility. But still, publishing things that are harmful is hard to take. I know I feel, with respect to any of the high Government positions that I have held, when I am out of them that in a sense you cannot leave them. You have a responsibility to those offices.

So I think that General Chain has done a tremendous service in calling attention to this problem.

Now, put the personality business to the side and focus on what we should be debating, and I would love to sit down with this committee or with the Intelligence Committee or with anybody, or with a group of reporters, and say: First of all, do you think there is a problem? A lot of people do not think so. I think there is a tremendous problem. And then: What are we going to do about it? We just cannot have this continuing.

So I am not prepared to apologize to anybody.

Senator PELL. Not you at all. But just on one point you mentioned yourself. This article was based entirely on material that had already appeared in the press in other countries.

Secretary SHULTZ. I am not sure that is entirely true, because Les Gelb is a very able reporter and he does not just go pick up what is published in this and that and the other paper. He digs himself. He is a very capable person. I have to respect him.

Senator PELL. Well, I guess what would disturb me, I recognize that a free press may be considered a luxury, but it is a good luxury and it is one of the benefits of our kind of life and our Government and our civilization. And in that regard, what you are suggesting is that even stuff that has appeared in the press, if it is harmful to the United States, should not be repeated. And I do not think you mean to say that.

Secretary SHULTZ. Well, it gives additional authority and credibility, and therefore adds another log on the national security problem. So I think I have to turn it around and say, do you think that it is proper for the U.S. Government to regard anything that it is doing as classified in the sense that it should not be published? And if the answer to that question is yes, then I think it follows that it is proper, not only proper, it is a matter of prime responsibility, to try to do something about it.

Now, I know all the reporters take the view that if they get the information, why, they publish it. Not all of them, but many, including Les Gelb will, if he sees a story that has a problem, will be willing to talk about it and maybe try to write it in a special way. But nevertheless, the general view is that if it is published anywhere or if I have got it, somebody else will get it and so we might as well publish it.

And I think in the process we are doing our country a great deal of harm. And do not misunderstand me. I am not saying we need to crack down on the press. But I think we need to call attention to the seriousness of the problem. We need to crack down within the Government.

But also, there need to be some standards set. There are no standards of performance left around any more, and I think we have to get back to that. It is sort of an old-time religion here.

Senator PELL. Thank you very much.

The CHAIRMAN. Thank you, Senator Pell.

Senator Helms.

Senator HELMS. Old-time religion, amen, brother. [Laughter.]

I come from the media, and I think freedom of the press involves the freedom to be responsible. I agree absolutely with what you said, Mr. Secretary, and I congratulate you.

I wanted to commend you on something else, your San Francisco speech. That was an excellent expression, Mr. Secretary, in which you said it was the policy of the United States to support democratic forces around the world.

I have to tie that in to a question about Lebanon and the withdrawal of part of our personnel there. Do you consider that a temporary situation, the withdrawal of personnel?

Secretary SHULTZ. Yes, sir. I think that, particularly in an area that is charged with turmoil and danger, we ought to be especially careful to size the numbers of people present to the task that they can perform. And right now, given the conditions in Lebanon, the things that we can actually do out of our Embassy are less than under normal times.

So we try to size it, and if things settle down, why, we will reestablish those functions.

Senator Helms. I guess what I am seeking is an assessment from you, sir, about that general situation. What hope can you give the people of Lebanon and others involved that there may be some resolution or at least a diminishment of the difficulty there?

Secretary Shultz. We have stood all along and the President stands today for: first, a free and independent Lebanon with a central government that can maintain law and order in the country; second, a Lebanon that is free of all foreign forces; and third, an arrangement in the southern part of Lebanon that will have the effect of preventing the use of that part of Lebanon as a base from which Israel is attacked.

Those have been our objectives consistently, and it has been a very tough struggle in Lebanon. We came very close to helping them and helping the region have more stability, and in the end we were not able to succeed. And I think one can look at it and say that Lebanon would be a lot better off today if the United States had done what we were trying to do, if people had cooperated a little bit more.

But we will continue to work and do what we can. But we do not have unlimited abilities to change things around.

I think, if I could say just one more thing, I think you just have to come back to the primary responsibility of the people of Lebanon for the conditions of Lebanon.

Senator Helms. Well, I do not know. There have been many cases in history where there have been more ramifications to a problem than existed in Lebanon and with respect to Lebanon.

Senator Mathias and I were just talking, Mr. Secretary, about a proposal—I do not know whether it is known to you or not—about a possible screening committee for ambassadors. Do you know anything about a proposal like that?

Secretary Shultz. I know there has been a private group that thought that that might be a function that they might perform, sort of like the bar association gives views about candidates for judgeships. I do not know whether that is what you are referring to or not, but I have heard of that.

Senator Helms. Yes, that is correct. It is an interesting idea. I do not know much about it beyond just the guts and feathers of the proposal.

I hope that before anything like that is sanctioned or approved or advocated by the State Department, maybe the Foreign Relations Committee could be consulted. It could be a good thing or it could be an unwise thing, depending upon how you proceed.

Secretary Shultz. Well, I can give you an opinion. I do not think it is a good idea. I think the President runs for office, gets elected, and it is part of his constitutional duty to nominate people for all Presidential appointments, not just ambassadors, everything else. And there is a process for doing that, and he does it.

We consult and goodness knows we get plenty of advice, including advice from people I am looking at here. And then, once nominations are made, the Senate hears these people. If others want to testify and give views, they are free to do so. Usually we are willing to hear anybody, pro or con. So there is no lack of ability to find opinions. And then the Senate acts.

That is the constitutional process. I think it is a pretty good process, and it seems to me we should stick with it.

Senator HELMS. If you inferred skepticism on my part you are correct, and I agree with you.

Is there a State Department regulation that it is the goal of the Foreign Service that our officers be language qualified, that is to say that they be relatively proficient in two languages? Is that a policy?

Secretary SHULTZ. It is our desire, but we cannot bring it off in every case, that people who serve in a country should speak the language of the country. And I believe it is clearly very desirable, because you are just so much more able to be effective.

Sometimes we have an inability to get that many language qualified people where languages are unique languages to a country. But we try very hard, and the Foreign Service Institute has one of the best language training capabilities that exists anywhere. It is one of the things that we can be proud of.

We have tried in a few posts—I think I am correct—Under Secretary Spiers is much more familiar than I—to make it an absolute requirement that everybody there speak the language. Of course, that is desirable, but it can impose some difficulties on you.

We have exceptional ambassadors, for example, who do not speak the language, but are doing a fantastic job, like Mike Mansfield in Japan. So it is not as though you cannot operate. But of course, Japan is a country where people struggle with English and are inclined to accommodate.

Senator HELMS. Mike is coming along. He is learning some Japanese. He can certainly speak more Japanese than I can.

Mr. Secretary, I know you do not know the answer to this question, but could someone on your staff supply the statistics on how many people into the Senior Foreign Service, and the equivalent, have met the qualification of proficiency in two languages?

Secretary SHULTZ. Two languages other than English. I must say, as I read a lot of what comes along, I think that we ought to start with qualifications in English. [Laughter.]

Clear, concise, simple sentences.

[The information referred to follows:]

Fifty-seven officers were promoted into the Senior Foreign Service (SFS) in 1983 of whom 28 or 50 percent were language qualified in two or more languages. Similarly, of the 46 officers promoted into the SFS in 1984, 25 or 54 percent were language qualified in two or more languages.

There are 1,600 Foreign Service officers (out of 3,171) who are qualified in two or more languages. Of the 1,600, 1,072 include among their languages at least one Category B "hard" language, while 528 are qualified in two or more Category A World languages. (See attachment). It is worth noting that 265 officers of 16.5 percent are qualified in four to seven languages.

CATEGORY A AND B LANGUAGES

Category A.—Afrikaana, Creole (of Haiti), Creole (of Martinique), Danish, Dutch-Flemish, French, German, Italian, Norwegian, Portuguese, Spanish, and Swedish.

Category B.—Amharic, Arabic, Bengali, Bulgarian, Burmese, Chinese (Cantonese), Chinese (Standard), Czech, Dari/Afghan Persian, Farsi/Persian, Fijian, Finnish, Gaelic, Greek, Gujarati, Hebrew, Hindi, Hungarian, Icelandic, Indonesian, Japanese.

Khmer/Cambodian, Korean, Lao, Macedonian, Malagasy, Malay, Marathi, Mongolian, Motu, Nepali, Nyanja/Chinyanja, Papiamento, Pashto, Pidgin (of New Guinea), Pilipino/Tagalog, Polish,

Romanian, Russian, Serbo-Croatian, Sinhala, Slovak, Slovenian, Somali, Swahili, Tamil, Thai, Turkish, Ukrainian, Urdu, and Vietnamese.

[NOTE.—Since this list is subject to change, interested persons should consult the Language Testing Unit, FSI, for current information.]

Senator HELMS. Well, I hope they do not make that rule about the Senate as well. [Laughter.]

Mr. Chairman, I have a couple of other questions, but I think I will wait until the next round. Thank you, Mr. Secretary.

The CHAIRMAN. Thank you, Senator Helms.

Senator Sarbanes.

Senator SARBANES. Mr. Secretary, I had not intended to raise the Gelb affair, but in light of the questions and the answers I think I ought to pursue it for a few minutes. Let me just say at the outset that I do not regard the free press as a luxury. I think it is essential to a free society.

Secretary SHULTZ. I agree with that.

Senator SARBANES. That is the premise with which I begin this questioning. And I must say, I was taken aback by the degree to which you supported, and in effect sanctioned, the actions that General Chain took in this instance.

So I guess I have to go at this standard of performance and the oldtime religion just to get some kind of sense of what those standards are in your view. Is it your view that by putting the stamp "classified" on any document you freeze it from any public consumption or reporting? That any use of any material stamped classified would be harmful to the Nation?

Secretary SHULTZ. I am sorry to say the answer to that is no, because there is a lot of stuff that gets stamped that should not be stamped. Of course, there are things stamped, and there are rules for this, in which the classification automatically expires or becomes meaningless. It is only classified because you do not want somebody to know it before you give it.

That is, if you are giving instructions to our negotiators on something, you do not want that to get published before they get a chance to use it and negotiate with it and so forth. But once that is done, it is not so essential.

Senator SARBANES. Now as I understand it, the information contained in the Gelb article had already appeared in the countries involved and had been, in fact, a matter of public debate in at least some of those countries. Is that correct?

Secretary SHULTZ. That is correct. But I would expect that a reporter of the quality of Mr. Gelb would not simply assemble things that somebody else put down and then write a story about it. He would want to look into it himself.

Senator SARBANES. It correct that Mr. McFarlane asked the State Department to cooperate with Gelb on this story?

Secretary SHULTZ. That I am not aware of. But I know that we did. There were discussions between people in the Department and Mr. Gelb about the story, and I myself had a discussion, first with

Mr. Sulzberger, and then Mr. Rosenthal called me about it, basically saying that, since the story was out, they were going to go ahead with it. And they were kind enough to say that they would not publish it before a certain day, so that we could do whatever damage control we were able to.

Senator **Sarbanes**. Well, if the other countries know about it, what is the harm in letting the American people know? The American people are the only ones who do not know about it.

Secretary **Shultz**. The material that appears someplace in the paper in another country may come or go, but when it appears under the byline of a recognized authority in a paper of the stature of the New York Times, that is taken as an authoritative statement. That being the case, the bearer of those responsibilities has a special impact.

Senator **Sarbanes**. In other words, if it had been some cub reporter on some weekly paper somewhere in the country, there would have been no problem?

Secretary **Shultz**. No, I do not say that. I just say there is a special problem, and people who particularly have held Government office themselves have a special responsibility, because the very fact that they have been exposed over a period of years to a flow of the most sensitive information there is means that their level of knowledge and the authoritativeness with which they speak and write is raised.

Senator **Sarbanes**. Do you feel that you are immunizing Bernie Kalb from going back into the newspaper business?

Secretary **Shultz**. No, I do not think people are prevented from writing or whatever. But I just say that there is a special responsibility to be exercised.

And I might say, Senator, I do not sit here saying that I know the answers to this problem. I am very conscious that I do not know the answers. But one thing I do know is that it is a very big and important problem, and it is being brushed off and not really thought about anywhere near as carefully as it should be. What General Chain did was sort of highlight it.

Senator **Sarbanes**. I was with you until that last statement, because I was about to say, before you made that addition, that I think it is a complicated problem and in some respects a difficult one. For instance as you said, simply because a document has a classified label it does not necessarily follow that it is not in the public or should not be in the public domain. In such a situation we have a problem that we have to address.

The point I want make is that it is not a serious and responsible response to the problem for the Director of the Political-Military Affairs Bureau to take down Gelb's picture and replace it with a statement which I shall now quote:

> Removed for cause. The PM Director 1977 to 1979 did willingly, willfully, and knowingly publish in 1985 classified information, the release of which is harmful and damaging to the country.

Do you think that that is a serious, thoughtful and responsible way to address what I think. By your own statement, you think is a difficult and complex problem?

Secretary SHULTZ. I would like to put the Gelb part of it to the side and focus on the problem. That is what I have been trying to do all along. But taking what you read, first of all, perhaps we could agree that it did damage the interests of the United States. That is a fact.

Second, that Les Gelb when he published the article knew that it would. That is a fact, too.

Senator SARBANES.There is some argument over that, since I understand the editors of the Times, when they declined the request not to publish, said that, since others knew about it, they saw no reason why Americans should not be informed.

Did the harm lie in fact that Americans became knowledgeable about something that people in other countries were already knowledgeable about?

Secretary SHULTZ. The harm came basically in other countries from the added authority given to the material by the publication here in a newspaper of the stature of the New York Times, which has the reputation for checking things out carefully, and by a writer who is probably about as esteemed in this field as anyone in the world and who is known to have great access to material, who served, as you noted, for 2 years in a post where the full stream of the most sensitive information about the U.S. Government's activities flowed by.

So that lends a credence and authority to whatever is published.

Senator SARBANES. Mr. Secretary, I do not think you can impose that kind of standard. The Times did not initiate the disclosure of this material. It had already been disclosed elsewhere, and I gather it had been a source of some controversy and debate in those countries. Is that not correct?

Secretary SHULTZ. Some had, some had not. As I understand it, there had been controversy and debate and it had basically been dealt with.

Senator SARBANES. Let me conclude by saying that I think the way General Chain went at it is not a responsible way to address what is properly defined, I think, as a fairly complex question.

My time is about up. I did want to ask one other question. Does the Department have a position on the participation by ambassadors in partisan political activity?

Secretary SHULTZ. Well before the last campaign started, I developed a statement about what was expected of ambassadors and took it to the White House counsel. It was approved by the White House and it was distributed to our ambassadors. Basically what it said was: You are full-time representatives of the U.S. Government and basically you are supposed to work at your job.

Now, I think career people by our laws do not take part in partisan political activities. Noncareer people are in a somewhat different category and I think it is not wise, perhaps for some of the reasons why you are so sensitive about freedom of the press, to tell them that they cannot express their political views. But I think it should be done with great caution.

Senator SARBANES. Is the Department's position on involvement in partisan political activities different for career ambassadors as opposed to noncareer ambassadors?

Secretary SHULTZ. Yes.

Senator SARBANES. And what is that distinction or what are the two policies?

Secretary SHULTZ. Noncareer ambassadors should not take part in partisan political activity. They vote, that is it. Career people we believe should, as I think political appointees in the State Department generally do, as I do—and I made no secret of who I am for—defend the foreign policy, the President's foreign policy. Nevertheless, I did not take part in partisan political activities, go to fundraisers and things like that. I missed out on all the fun. [Laughter.]

Senator SARBANES. Well, as I am hearing that, I do not follow. You do not think ambassadors should be in partisan political activities in either event, is that correct, whether they are career or noncareer?

Secretary SHULTZ. I think that noncareer people who are serving as ambassadors should be cautious about it and should not take part in the normal course of events in partisan activities, and they were so told. But I do not think that it is a good thing to say to a person when he accepts a post as an ambassador, a noncareer person, that by virtue of accepting that post you make yourself unable to express your political views.

So in the event that you are probably leading up to, I do not consider that people violated the rules, although we had sought to keep that kind of direct political activity to a minimum.

Senator SARBANES. It would not be a particularly desirable from the Department's point of view, if the Members of the Congress, all 535 of them, were hustling around trying to get ambassadors to endorse them in political campaigns, would it?

Secretary SHULTZ. It would not be a particularly good thing, although I would question the wisdom of the people running for office if they spent a lot of time doing that. I do not know how much good it really would do them.

Senator SARBANES. But really, you would not want that to happen, would you?

Secretary SHULTZ. No, we would not. I have made that very clear.

The CHAIRMAN. Thank you very much, Senator Sarbanes.

Senator Mathias.

Senator MATHIAS. Mr. Secretary, we came here to talk about the Department authorization and foreign assistance, and we seem to have been off on the Chain gang. Let me just add one more link to the chain. [Laughter.]

I want to try to raise your spirits a little and your feeling about the press. You said a minute ago that you thought that whenever a reporter got hold of classified material he felt obliged to print it. I recall the case of James Adams, a young reporter here in Washington, who came across the most remarkable trove of classified material that I myself have ever seen; classification so astronomical that I had never been allowed to even look at the code words, let alone the material. And yet he brought that material to me and I returned it to the Department.

And it even included typewriters with memory banks with classified material in the memory banks. And all of that was recovered because of the sense of responsibility of one reporter, James Adams. And so there is no universal rule on these matters.

Secretary SHULTZ. But it is a fine example.

Senator MATHIAS. Well, I just wanted to recall that to your attention.

And of course, the universal rule does not exist on the other side, either. There are officials in high office who have published classified material.

Secretary SHULTZ. Unfortunately, you are right, and I think that it is perfectly correct to say that the problem of leaks comes because somebody in the Government who has this information puts it out for some reason, and that is where it starts. And that is part of the problem.

Senator MATHIAS. Well, it has—even on occasion a President of the United States has given an instant declassification, either deliberately or otherwise.

Secretary SHULTZ. As the saying goes, it is the only boat that leaks from the top. There are a lot of leaks from the top, and that is true.

Senator MATHIAS. But we do not turn their pictures to the wall. They are still in glowing oil, hung on the White House walls.

And I think maybe what we need here is what you have suggested, and I would like to second your proposal that we take time to look at this problem with great deliberation. And I think you are correct in what you have also said, that there is overclassification. There are too many pieces of paper which for insufficient reasons are classified at all or classified too highly, and with the result that it just invites violations of the classification procedures.

So if you are willing to participate in such a process, I think we ought to join together and see if we cannot find a way to improve the system.

Secretary SHULTZ. I would welcome it. I felt Senator Sarbanes was also saying that it was a serious problem. Setting aside the views about a particular incident, we ought to address this problem and see what constructively can be done about it, recognizing that you cannot just button it all up.

The system is too loose for that, but we can do better than we are doing now.

Senator SARBANES. Would the Senator yield on that point?

Senator MATHIAS. Certainly.

Senator SARBANES. Mr. Secretary, I agree with that, but with the following caveat: Some steps ought to be taken to redress Gelb's reputation, because I think Chain treated him unfairly and improperly, and his actions are not conducive to addressing the issue in a serious and responsible way.

Secretary SHULTZ. Well, statements have been issued, including mine, and I have extolled his virtues here as a reporter. But I also think there is a problem and I think his publication is an illustration of the problem. Unfortunately, there are too many illustrations of the problem.

That is really the heart of the matter. It is not considered to be a problem.

Senator MATHIAS. One of the great practitioners of the art in which you are now engaged, the art of statecraft and high diplomacy, was Talleyrand, for many years the foreign minister of France. He once enunciated a principle that might apply here, both as far as General Chain is concerned and perhaps as far as everybody else is concerned. He said "pas trop de zeale"—not too much zeal. Maybe that would be a useful rule of restraint to follow.

But to return, I did not mean to cut off any comments.

Secretary SHULTZ. No, I think I better quit while I am not too far behind here. [Laughter.]

Senator MATHIAS. To return to the stated subject of this meeting, I would like to continue to cast a few bouquets, in this case to the Director of AID, Peter McPherson, who I think has done an excellent job for many reasons, but in particular the difficult job which he has performed so well with respect to providing emergency food aid to Africa. It has been a terrifically trying, difficult job, with political frustrations and physical limitations and all the kinds of problems you can run into in that sort of an emergency operation, and I think Mr. McPherson has represented the Department with an exemplary performance.

Mr. MCPHERSON. Thank you, Senator.

Secretary SHULTZ. I appreciate your saying that, Senator. Mr. McPherson has done a wonderful job on that and many other things, and it is very nice to hear that somebody notices it and comments on it.

Senator MATHIAS. It does raise the question of what you think we can do to provide longer run aid to the agricultural sector in Africa. I understand that in the other body there has been a proposal for additional funds for agriculture in Africa through the International Fund for Agricultural Development.

And I am wondering whether that is the way we ought to go or whether there are some other suggestions that you would have to make.

Mr. MCPHERSON. Yes, Senator. The so-called IFAD negotiations are I think at a very important point. We have said essentially that the OPEC countries need to continue to participate at a very substantial level in order for us to be able to play the part that we would like to play. I think IFAD is one of the units, one of the parts, of being able to solve the problem, not the whole, of course.

We are putting a lot of money into agricultural research. For example, I was in the Sudan last week, where a new hybrid sorghum we have developed will help increase yields by 150 percent over traditional sorghums. We are putting in a lot of effort in agricultural policy, where now in Malawi and Somalia they have had substantial increases as a result of agricultural price policies.

Returning to IFAD, I know that has been a special interest to you, and let us keep you closely informed as those discussions go.

Senator MATHIAS. Turning to Central America, I am interested and I am heartened by the fact that the administration has again requested multiyear economic aid for Central America. This is in essence the recommendation of the National Bipartisan Commission on Central America, which was convened last year under the chairmanship of Secretary Kissinger, and I think the recommendations made a great deal of sense.

I may be biased by the fact that I sat in on a good many of those meetings and heard the discussion and actually saw the evidence. But if that is a bias, so be it.

However, my feeling of support for those recommendations was not, so far as last year was concerned, very widely shared on this committee or in the Senate at large, and I am hopeful we will have a better reception this year, and I am hopeful that we will have more success this year.

But some of that will depend upon the kind of priority that you assign to this particular part of the program, and I am wondering if you could tell us exactly how you view this. Given the global responsibilities we have and given the economic problems we have at home, just how important do you think this particular part of this program is?

Senator **SARBANES**. I think it is extraordinarily important because, with all due respect to our global interests and responsibilities—which we must direct a great deal of our time and attention and resources to—the condition of our own neighborhood has to be of prime importance. We need to pay attention to developments in Central America and do what is necessary to help that part of the world have a more stable political and economic outlook.

I would say the same with respect to our neighborhood more generally. The developments in our relationship with Canada are encouraging. We pay a lot of attention to our relationship with Mexico, to the rest of Central America. Our neighborhood has to have prime attention, and I hope that the committee does authorize in effect what the Bipartisan Commission recommended.

I might say, in connection with Senator Pell's opening statement, that as a believer in the old-time religion I support the old-fashioned way of authorizing and appropriating, and I am reluctant to see us as a government get into the habit of everything going on a continuing resolution. Everything gets all mixed up together, so that it does not get considered carefully by the committees that spend time on the subject.

I think we came out reasonably well on this subject in the CR, but it is much better to have the considered judgment of this committee and then of the appropriating committees on a subject of such importance to the country.

Senator **MATHIAS**. And what is only available under this kind of an authorization, the multiyear feature, which gives some confidence to the people on the ground that it is going to be a sustained commitment.

Secretary **SHULTZ**. That is a very good point.

Senator **MATHIAS**. Thank you, Mr. Chairman.

The **CHAIRMAN**. Thank you, Senator Mathias.

Senator Zorinsky.

Senator **ZORINSKY**. Thank you, Mr. Chairman.

It is good to see you again, Mr. Secretary. Mr. Secretary, the budgetary requirements for the State Department are submitted annually and they are looked at with respect to additional moneys for cost of living and inflation. In this respect, the State Department is not unique. All of the other Departments present it in that context also.

However, your Department is unique in that it spends a large portion of its budget overseas. We are being told now that our strong dollar is having an adverse effect on our exports to other countries. But inasmuch as a great deal of your budget is spent abroad, the Department's situation is actually the reverse of the penalties our exporters face because of the strong dollar.

In other words, the Department attains an economic benefit or advantage by that strong dollar being spent abroad. For instance, in beefing up security at our embassies, pursuant to recent legislation, are you taking into consideration when you submit a budget the greater degree of purchasing power resulting from a strong dollar?

Secretary SHULTZ. Of course, when we make purchases in a local area certainly the dollar goes further and we are able to buy more economically. That is part of what we are able to do.

An awful lot of what we have abroad is purchased in the United States, and of course the people that we bring from the United States abroad are essentially relating themselves to the American environment and not to the environment abroad. But they like it when the dollar is strong and they are serving abroad.

Senator ZORINSKY. I remember when we had a weak dollar and prior Secretaries of State were sitting there and saying the budget had to be increased in order to compensate for the weak dollar and the small purchasing power overseas.

Now it is the exact opposite. Does the Office of Management and Budget make allowances for that?

Secretary SHULTZ. You had better believe it. Even though we make such allowances, OMB points that out to us and it is not missed.

Senator ZORINSKY. Fine. I also would like to ask you about a matter found in the budget explanation. There is a "requested" regional refugee coordinator position to be based in Honduras. Who requested this position, since the United States does not generally recognize refugees from Latin America, especially from El Salvador?

And what is this person going to be doing, and how specifically is the $15,700,000 for refugee assistance in Latin America going to be used?

Secretary SHULTZ. I wonder if I could give you an answer for the record on that.

Senator ZORINSKY. That is fine.

[The material referred to follows:]

REFUGEE COORDINATOR IN HONDURAS

The Bureau for Refugee Programs recognizes the existence of a large refugee population in Central America, and consequently has funded the regional refugee assistance activities of the UNHCR, the ICRC, and other organizations for years. Funding for assistance to Latin American refugees in FY 1984 and FY 1985 totals about $28.5 million.

Since 1982, the Bureau has been concerned about the lack of a permanent Refugee Officer in the Central American region. Refugee issues in this strategic area continue to become more widespread and complex with each passing month. All posts in the Region have had to designate a member of the mission to serve as a part-time refugee specialist. This arrangement has not been satisfactory, but has had to suffice in the absence of anything more permanent.

In the past year, the Bureau has been forced to rely more and more heavily on these part-time refugee specialists to handle its affairs in the Region. This situation cannot continue indefinitely, especially in the face of an increasing number of refugees and refugee-related issues in Central America. Therefore, the Bureau requested this additional position.

A Refugee Officer position for the Central American region needs to be established as soon as possible. The Officer would be stationed in Honduras, and would perform the following duties:

Report on the interaction between political and economic events and refugee issues in the region.

Recommend policy initiatives concerning the range of possible solutions to refugee problems in Honduras, as well as in Mexico, Guatemala, El Salvador, Costa Rica, Nicaragua, and Panama.

Act as principal mission link with the GOH refugee agencies and officials to explain U.S. policies and programs.

Analyze international refugee organizations' programs in the Central American region including goals and objectives, structures, budgets, etc., and make recommendations concerning the appropriate levels of U.S. response.

Coordinate with other diplomatic missions insofar as their activities and policies impact on refugee programs in Honduras and the area.

Analyze refugee projects proposed by private voluntary organizations or others, and make recommendations concerning U.S. funding.

The Bureau has requested $15.7 million for FY 1986 to support assistance activities carried out by the UNHCR, the ICRC, and other international and voluntary organizations.

Of the $15.7 million, $12.5 million will support the UNHCR. $3.2 million will fund programs of the ICRC and, as required, other international or private voluntary organizations. The UNHCR will carry out care and maintenance, local settlement programs, and repatriation if appropriate. The ICRC provides relief assistance and programs for political detainees.

Senator ZORINSKY. Mr. Secretary, you sent a letter to the Inter-American Development Bank approximately January 30, 1985, concerning the taking up of a loan for Nicaragua. Can you tell us why you did not go through the normal channel of the Department of Treasury, rather than unilaterally making the request from your Department? Is this any different than the Congress amending the law with respect to our affiliation with that group?

Do you feel that you should unilaterally make policy or attempt to change policy in this banking institution? And is that any different than the Congress doing it?

Secretary SHULTZ. I did not attempt to change policy. I attempted to call their attention to the fact that a loan to Nicaragua on economic grounds only would be a mistake, given the criteria of the Bank, because Nicaragua in its credit standing is a very poor credit risk.

Senator ZORINSKY. I happen to agree with you. You could have included many other countries on that list as far as credit goes in that part of the world.

But my question is, Is there a normal relationship between the Department of the Treasury and the Department of State for delivering that type of advice to that banking institution? Isn't it a Department of the Treasury responsibility? With your predecessor, the prior Secretary of State, we tried really hard to get this administration to lift the grain embargo and Al Haig indicated that the embargo was having a beneficial effect, and he overrode Jack Block in the USDA.

It is fine for you to express yourself, but I am just concerned about how much power the Secretary of State has over Jack Block or over Jim Baker. Do Departments become monolithic and supersede other Departments, and get into the area of advice reserved for another Department? That is what I am trying to get at.

Senator MATHIAS. Would the Senator yield just one second on that?

Senator ZORINSKY. Certainly.

Senator MATHIAS. Because we had testimony in this committee on Tuesday from the Treasury Department and this same subject came up. And the testimony from Treasury was that there had been close coordination and liaison between State and Treasury on this matter and that they were not only seized of the knowledge of Secretary Shultz' position, but also had generally concurred in the position that he had stated.

Senator ZORINSKY. I was not aware of that, and evidently Secretary Shultz was not either.

Secretary SHULTZ. No, I was just about to respond to you that we do in general make an effort, and in this case did, to coordinate activities.

I might call attention to the fact that the Secretary of State—or the Secretary of the Treasury is the U.S. Governor of the various international lending institutions, and the Secretary of State is the alternate Governor. So I have an official position with respect to those institutions.

I believe it is the case that with the IMF, however, the Chairman of the Federal Reserve is the alternate Governor. At least that was the way it used to be. So it is not as though I have no business stewing around in this pot.

Senator ZORINSKY. Is that the first instance of advice you have given that bank?

Secretary SHULTZ. In terms of writing a letter, it is the first one that I recall. But I have watched and weighed in and been part of the discussion of a great many actions. It is part of our responsibility as a Department, and I think we ought to exercise it vigorously, to be aware of the flow of the proposed loans and be part of the determination of how the United States should vote on them.

Senator ZORINSKY. Well, I support you philosophically in protecting the fiduciary responsibility of our Government where we provide tax dollars for loans to governments that do not pay them back. I compliment you from that aspect, but my concern was elsewhere. Every time I see a new chapter open about Departments usurping jurisdiction it reminds me of the comments I hear about Congress trying to set foreign policy for this Government. And certainly I think we can only have one President at a time and that is where the foreign policy should be set.

It seems we are beginning to see an erosion of the same type in the administrative branch of Government with all these cross-jurisdictions and with advice given by one Department on behalf of another. But I appreciate your responses.

Secretary SHULTZ. Actions by the Federal Government in what one might call foreign policy come from all directions, and everybody is in the act. In some cases there are actions taken that are ones that we have very little ability to have an impact on, although I think the Department of State is generally accorded the responsibility for what you might call country coordination.

We are trying to be astride of all the different things going on that affect our relationships with another country. But many of the things are not in our jurisdiction to really have much say about it.

Senator ZORINSKY. Mr. Secretary, I do not want to put you on the spot, but my final question would be: In your estimation, do you feel the recent pilgrimage of some of my colleagues as observers to the disarmament conference in Geneva was beneficial or detrimental or none of the above?

Secretary SHULTZ. Beneficial.

Senator ZORINSKY. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Zorinsky.

Senator CRANSTON.

Senator CRANSTON. Mr. Secretary, I congratulate you on your hard and arduous and good work in Moscow and Geneva and welcome you back.

Secretary SHULTZ. Thank you.

Senator CRANSTON. I know you have had quite a workout, and I will only ask one question. One of the peculiarities of this business is that, while I welcome the opportunity presented by this hearing to learn from you and exchange views with you, and while I share many of the goals that you and I have discussed both privately and before this committee, and while I have great respect for your work as Secretary of State, I am at the same time working the other side of the street on the MX.

I am working on my colleagues by phone calls and in other ways, seeking to line up the votes to defeat it. And incidentally, I have a tally here and I think it is about 46–46 right now, very close, with about 8 undecided. I am helping to lead the fight against the MX because I share the view of many that the MX would be a provocative and unnecessary addition to our very ample nuclear arsenal that I think already gives us deterrent capacity and gives the Soviet Union ample reason to negotiate with us.

I think it is wasteful to be spending so many billions on a weapons system of dubious value at a time when we have such monstrous deficits that we all know have to be coped with. And I wonder if 100 MX's would really alarm the Soviet Union, since they tabled one proposition at Geneva that would have permitted us to build 680 MX's.

But I do want to learn more about this issue from you and others, and I am studying it in all its aspects constantly. On Wednesday, your Special Arms Control Advisor, Paul Nitze testified on the House side that he doubted that a failure by Congress to vote for MX production would make any immediate and dramatic difference in the arms talks in Geneva. At the same hearing, Secretary Weinberger implied that if Congress rejected the MX, U.S. negotiators might as well pack up and return home from Geneva.

So what I would like to ask is, do you agree with Ambassador Nitze or with Secretary Weinberger?

Secretary SHULTZ. I think Ambassador Nitze said that it would be harmful to the negotiations to have the MX voted down. From my own standpoint, I think that the MX is important for us to have.

First of all, from the standpoint of our national security, that is the continued modernization of our triad of strategic defense forces. I think that is the first and fundamental basic reason for having this weapon. It is the first genuine modernization in quite some time of our land-based missile forces, as contrasted with an impressive and continuing modernization program on the Soviet side, which includes new missiles that have yet to be actually deployed.

So we are behind the curve in terms of our own modernization program, and it is a much improved missile over what it would replace, the Minuteman. I think I have heard Senator Goldwater's quote of some years ago as saying it should have been called Minuteman IV, because it really is a continued modernization program.

Having said that and said that I think that is the primary basis for judging this program, it is also correct, I think, to note that the votes take place in the context of the start of negotiations in Geneva over strategic arms. We can only speculate, but I am sure there are all sorts of reasons why the Soviet Union decided, having walked out of these talks 1½ ago, to return to them this year.

Surely among those reasons, very powerfully, is their observation that, with all of the pressure put on, the United States has continued its modernization program and the allies have continued to stand up to the pressure and go ahead and deploy as was agreed in 1979 in NATO. We have seen the most recent illustration just today with the Belgian decision.

I think it is very important for the United States, just as it was for Belgium, to stand up to this pressure and to carry out our programs. When we do that, we give the Soviets the message that we are determined to defend our values and defend our interests and to pay the costs necessary to do so.

So on both grounds—the importance of the missile itself in our modernization program and its impact on the negotiations—I believe that a favorable vote is called for.

Senator CRANSTON. Thank you very much.

Secretary SHULTZ. That comes as no surprise to you, I am sure.

Senator CRANSTON. Thank you.

The CHAIRMAN. Thank you very much, Senator Cranston.

Mr. Secretary, Senator Humphrey has submitted several questions on Afghanistan and I would request that you respond to them in writing, and we would be pleased to make your responses a part of the record. And I would ask that that procedure be followed, as opposed to his having to appear as a guest of the committee today.[1]

The CHAIRMAN. Mr. Secretary, I have no further questions, but I will now turn to my colleague Senator Pell and ask if he has some followup questions.

Senator PELL. Thank you. I have three very brief ones.

First, Mr. Secretary, can we be assured that the administration will not be funding the contras through any third country in this bill that is before us?

Secretary SHULTZ. You can be assured that the administration will follow the law.

Senator PELL. Mr. Secretary, why would aid continue to be given to Morocco, given our view on terrorism and the fact that she has such a close alliance with Libya, one of the principal practitioners of terrorism? I would have thought that we would have in some way sought to admonish Morocco in this regard.

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[1] See page 119.

Secretary SHULTZ. We have had great concern over Morocco's arrangement with Libya and we have said that to Morocco. Simultaneously, we observe the positive aspects of our relationship with Morocco, and so we have to weigh both things; therefore, we have concluded that we should continue to be helpful to Morocco and continue our relationship. But there is no doubt about the fact that their pact with Libya is very troublesome.

Senator PELL. Finally, there is pretty substantial bureaucratic overhead in the assistance provided by AID, and I have long believed that voluntary organizations can do this for less money to the taxpayer and less overhead, and also acquiring a certain expansion in the constituency for AID, which is about the most unpopular program we politicians find when we go back to our constituency. And I do not find quite enough in the bill moving in that direction.

Could you comment?

Mr. MCPHERSON. Yes, Senator. As you know, we have had a lot of discussions on this over the years. I think the private volunteer organizations indeed play a very critical role. I do not think we could have done the job in Africa that we have done in the last few months without them, in fact. I would envision that role to continue to grow.

Senator PELL. I am very glad that is so, and I particularly appreciate the Secretary being here and I can imagine how tired he must be.

The CHAIRMAN. Thank you, Senator Pell.

Senator Mathias.

Senator MATHIAS. Mr. Secretary, I have one question, but I also have a request. I am sure that someone in the Department has done a study on the economic impact on the domestic economy of the United States of moneys that are spent in foreign assistance.

Secretary SHULTZ. Yes, sir.

Senator MATHIAS. I would request that that be made a part of your testimony.

Secretary SHULTZ. We will make a statement and put some specifics beside that, and I appreciate the point.

[The material referred to follows:]

PERCENTAGE OF FOREIGN ASSISTANCE RETURNED AS U.S. PROCUREMENT

In FY 1984 it is estimated that 70 percent of foreign assistance expenditures (including Public Law 480) of $5.9 billion returned to the United States through LDC purchase of goods and services. The respective figures for FY's 1980–1983 are presented below:

[In billions of dollars]

	Foreign assistance expenditures	Proportion spent in United States
Fiscal year:		
1980	4.8	69
1981	5.5	75
1982	5.7	71

	Foreign assistance expenditures	Proportion spent in United States
1983	6.0	74

It is currently estimated that, on average, 25,000 U.S. jobs are created or maintained for each billion dollars of U.S. exports. On this basis and combined with the estimate that 70 percent of total foreign assistance expenditures result in U.S. exports of goods and services, a ball park figure for jobs resulting from the $5.9 billion foreign assistance program in 1984 (including Public Law 480) would be 140,000.

Senator MATHIAS. The record is that for every dollar spent in these foreign assistance programs a considerable amount of economic activity is generated within the United States, which is something that is sometimes forgotten when we consider this program. And so I would appreciate that.

My only other question is, what time did you get home from Moscow? [Laughter.]

Secretary SHULTZ. I got home last night about—I do not know when, 8:30 or something like that.

Senator MATHIAS. Having made that flight recently, I would suggest you get home soon. [Laughter.]

Thank you, Mr. Chairman.

Secretary SHULTZ. I am doing all right. I may be a little more edgy than usual here. [Laughter.]

The CHAIRMAN. Senator Sarbanes.

Senator SARBANES. Mr. Secretary, I would be interested in the rationale for the deep cuts in your request in the UNDP and the UNICEF Programs—almost 30 percent in the UNDP and 50 percent in UNICEF. What is the justification for such a sharp drop in our support for those programs? They depend upon other donors as well and therefore we serve as something of a magnet in terms of drawing support for their overall budget?

Secretary SHULTZ. Under Secretary Schneider will respond.

Mr. SCHNEIDER. Senator, in producing the budget, in the past couple of years the Congress had provided considerably more in those programs than the administration had recommended. Weighing the alternative ways of providing assistance through other multilateral institutions or through bilateral assistance, and within the funding constraints required, we felt that we had the right balance that is using the right institutions for the kind of assistance programs generated.

This year, with the excruciating deficit problem and the intention to keep the entire 150 account at or below the fiscal 1985 enacted level, it was required that we minimize any increases over request from previous years.

Senator SARBANES. Well, it is not an increase. This is a sharp cut in the U.S. contribution to those two programs. Do you think those two programs can—what do you think the impact upon them would be if the U.S. contribution were cut as sharply as you are proposing?

Mr. SCHNEIDER. Well, the increase over the past several years has still been noteworthy, and we think they will be able to continue the program they have, which we regard as worthwhile.

It is a question of degree and a question of balancing all of the instrumentalities of the Foreign Assistance Program. And this in our judgment was an appropriate mix.

Senator SARBANES. Do you think our contribution to the United Nations Children's Fund can be cut in half without substantially harming their program?

Mr. SCHNEIDER. In terms of meeting our overall foreign policy objectives, of which the objectives of that entity are included, I think we can adequately meet the objective by the totality of our economic assistance.

Senator SARBANES. Well, I am leading to that, as a matter of fact, because next I want to ask is why we have cut our contribution to the health programs by 35 percent in this years request?

Mr. MCPHERSON. Our health account is down, certainly, some from last year. We envision, however, with the moneys we have asked for to be able to continue really a very effective and aggressive health program around the world. We were given a very substantial amount of money last year and we are in effect digesting how to do that and how to do that well with those moneys.

The problem you have with these budgets, as Bill is suggesting, is a continual struggle to balance them out if we are going to keep within reasonable levels. We try to make these work together.

For example, in UNICEF it is true that the number is down, but it is also true that out of the child survival moneys given to us by Congress last year that we have given $7 million for UNICEF programs. In addition, UNICEF is a contractor, in effect, for us all over Africa with the drought work. I would envision in a steadily broader way to use UNICEF in this fashion.

Senator SARBANES. Mr. Secretary, earlier, in response to someone's question, you made the point that we do it country by country. I think that was in respect to military assistance.

But I am concerned by the overall message that the budget request sends. Let me put the problem this way: These are but three areas and I could use other illustrations. The UNDP contribution is down 27 percent, UNICEF down 50 percent, health programs down 35 percent. The lights are going off all over the world as a consequence.

Yet military assistance, the grant program, is up 18 percent; and FMS is up 15 percent. So in effect what you have is a budget that is shifting substantially toward the military component and away from development—health, children's care programs, and so forth.

Now, clearly the problems that those latter programs are dealing with are not diminishing around the world. There is a strong concern that they are increasing. Addressing them in a forthright way is an important part, it would seem to me, of a sensible overall American foreign policy.

Secretary SHULTZ. I think we have to come back to the comment that I made. You basically go country by country as the major sums are built up. It is the case that the economic support funds, broadly speaking, are larger in number than military support funds, by about $6 billion to $8 billion.

Now, at the same time, the security assistance part is a reflection of the fact that you cannot get very far with economic programs unless you can provide a secure situation. Take the case of

El Salvador. There is a guerrilla movement in El Salvador, supported out of Nicaragua, which causes great problems for economic development in El Salvador. So, much as you would like to give all the resources to economic development, you simply cannot do it and expect to see the economic development get anywhere.

So you have those sorts of tradeoffs constantly.

Senator SARBANES. In other words, it is your view that the military challenges we confront in this area are so severe that it is necessary to shift resources from the development and the humanitarian assistance area into the military area?

Secretary SHULTZ. Well, somewhat. The percentages are somewhat, as I said earlier, I think in response to Senator Pell's question, somewhat thrown off by the fact that we do not have the economic assistance figure for Israel in the percentages.

It is also true that in the areas that you have labeled, UNDP, UNICEF, and health, are areas where in fiscal 1985 the Congress added very substantially to the funding. So those were carried forward to a considerable extent, and we are reflecting our judgments, which did not agree with what the Congress did last year, and we are still of that opinion.

Senator SARBANES. The figures the Congress appropriated last year were virtually equivalent to the figures provided the previous year on both UNDP and UNICEF. UNICEF has been at about—in 1984 it was at $52.5 million, 1985 $53.5 million, and the request this year is for $27 million.

Secretary SHULTZ. There is a continuing difference of view between the administration and the Congress on those agencies, and it is I think the case—I do not have the numbers. I am not really that familiar with the detail, but I think it has been the case in fiscal 1985 and also in fiscal 1984 that the Congress appropriated considerably more than the administration requested, and that is apparently going to be the case again.

Senator SARBANES. Does the administration regard it as a matter of consequence that both the UNDP and UNICEF are headed by American nationals?

Secretary SHULTZ. I think we should look at the programs upon their merits, regardless of who heads them.

Senator SARBANES. Do we have a concern that a proper share of high-ranking positions in the United Nations should be held by American nationals?

Secretary SHULTZ. We certainly do, and I think that we are not properly represented in some aspects of the United Nations and some of the United Nations activities, although I am not speaking particularly about the ones that you are talking about here.

Senator SARBANES. Well, those two programs have been extremely important, and of course the leadership in both instances are American nationals, who I think have been extremely effective.

I suspect there may have been an assumption by the administration that the Congress would raise these figures in any event, because I am not convinced that you really believe that the extent of cut in the program posited by your request really makes sense.

Would you not be concerned about the impact if in fact the Congress simply passed along the figure that you requested?

Secretary SHULTZ. The President has presented you with a budget that is an effort, given the fiscal straits that we are in as a government, to balance out within accounts like the 150 account and then across the board where he thinks we best can spend the resources we have, which we have to regard as very scarce resources.

And the outcome of that process is before you in the President's budget.

Senator SARBANES. My time is up. Thank you, Mr. Secretary.

The CHAIRMAN. Senator Zorinsky.

Senator ZORINSKY. Mr. Secretary, was there a number included for Israel in that budget?

Secretary SHULTZ. There is a number in the military security assistance of $1.8 billion, as compared with $1.4 billion the year before. So there, you see right there is a large number that is up by a large percentage.

On the other hand, when it came to economic assistance the President felt that it was important to distinguish sharply in that case between the security side and the economic side. We felt that we were working with the Government of Israel and they were still trying to formulate, as they still are, exactly what their program is going to be to meet the great difficulties in the economic sphere that they have, and that we were not in a position to know what number was appropriate.

So we proceeded by putting in an asterisk, not including a number, and stating squarely that obviously there would be some number, but that we just did not know what the appropriate number was.

Senator ZORINSKY. The only reason you did not put the number in is because they do not know what they want?

Secretary SHULTZ. They have made requests, but we are not clear in our minds what the right answer is, what we should put in.

Senator ZORINSKY. Is it because they do not know or we do not know?

Secretary SHULTZ. They have made requests, and if by requests you mean do they know what they want, the answer is yes. On the other hand, I think there are real economic problems there and it is well for us to be very careful in proceeding, not only from the standpoint of our tax dollars, but also from the standpoint of their own readiness to get hold of these problems themselves.

In the end, they have to cure the inflation problem they have and the foreign exchange problem they have, and they have to do something about the exchange value problem that they have and so on. We cannot do that. They have to do that.

Senator ZORINSKY. But it is not an attempt by the administration or anyone else to make this committee the stuckees as the arbitrator for that number?

Secretary SHULTZ. Well, if you think that you know what the right number is, I would love to hear it. I do not know at this point.

Senator ZORINSKY. But if the number does not come from you, it is going to have to come from somewhere, and there is only one other body left that it is going to come from.

I would like to ask you this question also, Mr. Secretary. Would you support the termination of diplomatic relations with Nicaragua?

Secretary SHULTZ. No, I do not think that would be wise right at the moment.

Senator ZORINSKY. Thank you.

Mr. Chairman, one final request. I would like to have included by unanimous consent in the record of this hearing a UPI article about Senator Lugar from December 14, 1984, entitled "Lugar suggests funneling aid through private groups," It goes on to say that private institutions in many cases would likely make better use of aid funds for economic growth, as opposed to using the money for the political purpose of those in power.

I would like to associate myself with those views and commend the chairman for expressing them.

I would also like to go on to ask the Secretary of State why the request for the Inter-American Foundation, an organization which funnels aid not to governments, but to small self-help projects, has been reduced by 28 percent.

Senator PELL. If the Senator would yield for just one second, I would like to associate myself strongly with what you are saying and what the chairman said in this regard, and say that there will be an opportunity to practice this because I will be offering my usual amendment along these lines.

The CHAIRMAN. Without objection, the statement will be included in the record.

[The material referred to follows:]

[From United Press International, December 14, 1984]

LUGER SUGGESTS FUNNELING AID THROUGH PRIVATE GROUPS

(By Robert Shepard)

The new chairman of the Senate Foreign Relations Committee thinks U.S. foreign aid might be put to better use if it is given to private groups in other countries rather than their governments.

Some governments are more interested in keeping themselves in power than using the aid to improve the economic situation of their people, Sen. Richard Lugar, R-Ind., said Thursday.

"Private institutions, in many cases, would likely make better use of the money for economic growth as opposed to using the money for the political purposes of those in power," he said in an interview with wire service reporters.

Lugar described his proposal as "radical," but said, "We probably need to be thinking a good bit more about where we can direct shipments to private agencies or companies or individuals to see if we can get the sparks going of an enterprise economy."

Lugar, 52, has been in the Senate since 1977. He officially becomes chairman of the Foreign Relations Committee when the new Congress convenes next month, succeeding Sen. Charles Percy, R-Ill., who was defeated in the November election.

Discussing other matters, Lugar said Congress probably will not agree to resume aid to CIA-backed rebels in Nicaragua.

"For the foreseeable future, the 'Contras' will be supported by someone other than the United States government," Lugar said.

The issue may come up again in Congress, "but the votes were not there in support of that in the later stages of the last Congress and I'm not sure that has changed."

Lugar said he will begin his tenure as chairman by holding extensive hearings early next year on the full range of U.S. foreign policy issues, particularly what the U.S. relationship should be with the Soviet Union.

Lugar said the greatest threat to world peace is a possible "miscalculation of our political will to deter Soviet aggression."

"I think so long as the Soviet Union knows that we will resist—as we have the military power and authority to do that—that we may then maintain local peace . . . in terms of something less than the awesome conflicts."

He also warned of the danger from widespread bankruptcies among debtor nations, which could threw international trade into chaos. "The amount of suffering would be enormous," he said.

Lugar said the United States should let it be known it is prepared to retaliate for terrorist attacks, but he cited the difficulties of actually pinpointing those responsible for such attacks.

"It gets down to adequate intelligence. Do we have the very best evidence of who did what and where they're located? Without that retaliation is likely to take on a random character that would be unacceptable to the American people."

The **CHAIRMAN**. Mr. Secretary.

Mr. **MCPHERSON**. Yes, Senator. I think that that too was one of the problems where we balanced off various alternative uses of resources. And frankly, there are just never enough to go around. Congress and the executive branch came up with a reasonable number in these budget days of how much we can spend and there it is.

We regard the Inter-American Foundation as a good organization, as an organization that helps us experiment on ways, innovative ways to have development programs. And we feel that the budget that is presented there is a reasonable one.

Senator **ZORINSKY**. Thank you very much, Mr. Chairman.

And Mr. Secretary, thank you, under adverse circumstances, with the jet lag and all of that, for appearing, because I have been there before, and it is tough. Thank you.

The **CHAIRMAN**. Thank you, Senator Zorinsky.

Senator Sarbanes, did you have additional questions?

Senator **SARBANES**. No, Mr. Chairman.

The **CHAIRMAN**. Senator Pell?

Senator **PELL**. No; Mr. Chairman.

The **CHAIRMAN**. Mr. Secretary, we thank you again and your associates for coming before this very important hearing.

The hearing is adjourned.

[Additional questions and answers follow:]

STATE DEPARTMENT'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED BY HON. GORDON J. HUMPHREY, A U.S. SENATOR FROM NEW HAMPSHIRE

Question 1. The U.N. Commission on Human Rights recently presented a report detailing violations of human rights in Afghanistan including indiscriminate bombing of the civilian population and deliberate destruction of crops. How is U.S. foreign policy addressing this wholesale violation of human rights in Afghanistan?

Answer. The United States has for 5 years taken the lead in focussing attention on gross Soviet violations of human rights in Afghanistan. We have conducted a vigorous public diplomacy effort to get the story of Soviet atrocities into the media. Much of the reporting on Afghanistan, insufficient as it has been, has been a direct result of our efforts, particularly in the early years of the war. The State Department has periodically compiled reports on Afghanistan which, based on our best intelligence, have carefully documented the sad record of Soviet behavior. To recall one specific example, it was the USG which brought to world attention the evidence of Soviet use of chemical and biological weapons in Afghanistan in violation of the 1925 Geneva Protocol and the 1972 Biological and Toxin Weapons Convention.

The United States has also put its weight behind efforts in the United Nations and with other national and international organizations to condemn Soviet actions. Specifically, we supported the creation of the Special Rapporteur on Afghanistan, as well as the resolution which endorsed his conclusions, which you have cited. We welcome your own efforts and those of the Task Force on Afghanistan to increase public awareness of the tragedy of Afghanistan. We are heartened by the recent increase of public interest, but believe that much more must be done by ourselves, by the Congress, and by concerned citizens here and throughout the world.

Question 2. It is increasingly clear that Afghanistan may be the next country facing widespread famine. What efforts are underway at State to address this problem and more importantly, prevent it?

Answer. We do not believe that there is starvation or famine now in Afghanistan, but the situation is fragile and severe food shortages do exist in certain areas. The effects of 5 years of increasingly brutal wartime privation and destruction have taken their toll, and there is no doubt that conditions for the Afghan civilian population in general have deteriorated seriously.

A report published by Dr. Frances d'Souza for the British Afghanaid Committee in May 1984 first called world-wide attention to the possibility of famine in Afghanistan. Dr. d'Souza's preliminary investigations indicated that certain areas of Afghanistan were more vulnerable to food storages than others and warned that two factors—lack of adequate water for irrigation and disruption of food trade between Afghanistan and Pakistan—could cause immediate and catastrophic food shortages in Afghanistan.

An Inter-Agency Task Force, under the leadership of the State Department, was organized in August of 1984, to monitor and develop programs addressing the needs for food and medical assistance for Afghans inside Afghanistan. It send an AID/State team of experts in October to Pakistan to assess the situation inside Afghanistan. That team found, after numerous interviews with recent arrivals from Afghanistan, that serious localized food shortages do exist in some parts of Afghanistan due largely to military actions taken against the mujahidin and their civilian supporters. Those most in need of assistance were those displaced by the summer's heavy fighting as the Soviets had stepped up attacks on Afghan civilians in reprisal of their support of the resistance. The people of the Panjsher Valley and in several other regions, generally in the East, have been the most adversely affected. The team also found that the medical situation in Afghanistan, normally grim, is worsening, especially for rural civilians.

The Inter-Agency Task Force is currently working on a program for food and additional humanitarian assistance to the Afghans through 1985, to supplement the $2 million which Congress appropriated for medical assistance in August. On February 27, the Secretary of State notified Congress that the President had authorized the use of $2 million from AID's disaster relief account for a cash-for-food program for Afghans. We expect to have a program proposal from the International Rescue Committee shortly and will proceed on that basis. We are also hoping to reallocate, for use in 1985, another four million for further food and medical assistance, including the training of Afghan medical personnel in Pakistan.

Another AID/State Team has just returned to the United States from Pakistan where they have been examining how a long-term program, in cooperation with the Government of Pakistan, might be organized. We hope to have their report by the end of April so that the State Department can begin consultations with Congress on how such a program can be organized and funded. We anticipate that the humanitarian needs of the Afghan people will continue for the foreseeable future and we intend to be prepared to help meet them, with other concerned countries, in an effective and appropriate manner.

Question 3. How will our humanitarian assistance program be adjusted to meet this deepening crisis in Afghanistan?

Answer. Flexibility is a key element that we intend to build into our long-term humanitarian assistance program on Afghanistan. All observers of the situation in Afghanistan agree that there is a great need for continual information about the actual conditions inside the country. In Afghanistan, large and rugged as it is, conditions vary widely from one area to another, and from one season to another, depending on the war activity. Our Embassy in Kabul is an important source of information about conditions in the country. We expect heavy fighting in Afghanistan to begin with Spring weather, usually late April, and to continue throughout the summer and into the fall. We cannot predict where it will occur and with what result for the civilian population. We know there will be growing requirements for food and medicines. We believe that what we are beginning to send in now is appropriate for current needs. A distribution system is being developed. We think we will be ready to respond quickly if acute shortages should develop. We know we can count on the support of Congress and the American people to help meet the needs of the Afghan people in their struggle against the Soviet invader.

[Whereupon, at 5:25 p.m., the committee adjourned, to reconvene at 9:30 a.m., Wednesday, March 20, 1985.]

APPENDIX

STATEMENT OF ARMISTEAD I. SELDEN, PRESIDENT, AMERICAN LEAGUE FOR EXPORTS AND SECURITY ASSISTANCE, INC.

Mr. Chairman:

Thank you for giving me this opportunity to represent the members of the American League for Exports and Security Assistance (ALESA) before the Senate Foreign Relations Committee on the subject of security assistance. ALESA is an organization of companies and unions which are convinced that U.S. security interests and a healthy export sector are mutually reinforcing objectives.

At the outset, let me note that I recognize it is extremely difficult for members of Congress to contemplate the expenditure of tax revenues for foreign assistance, at a time when domestic budgets are going to have to come under extreme scrutiny. Under these circumstances it is politically attractive to advocate a cut or a freeze in foreign assistance, under the rationale that this is not the time to send money overseas. Unfortunately, this is simply not consistent with the very real humanitarian and security problems faced by the United States in the rest of the world.

Congress has recently recognized this dilemma in responding to the African famine. In spite of the tremendous pressure on our current budget, it was clear that people were dying now and more would die in the near future without increased assistance. We simply could not "freeze" our aid levels to Africa or postpone such assistance for more propitious budgetary times. U.S. budgetary cycles are simply irrevelant to the timing of drought and death in the outside world. Thus, Congress endeavored to act responsibly and expeditiously in appropriating additional food and development assistance for Sub-saharan Africa. Unfortunately, legislation has been delayed because of other political considerations, but it is clear that in the near future Congress will make available additional resources.

The security interests of the United States, and the forces which affect those interests, are likewise independent of the budgetary problems of the United States. The political instability resulting in part from the scourges of under development -- high unemployment, inadequate health and education facilities, poor diet, etc. -- continue to erode the possibilities of improving economic welfare and building democratic institutions. And forces hostile to those of the United States, both within developing countries and abroad, continue to provide financing, weapons, and manpower to exploit that political instability. Neither the depravations of poverty, nor the forces that exploit it, will await the U.S. political process as we address our own budgetary problems.

Security assistance, then, must be addressed not in terms of our own immediate domestic problems, but rather in terms of United States security interests, both short term and long term. We must ask ourselves what our interests are, and whether our security programs are adequate in volume and appropriate in content to support those interests.

First, let me note that contrary to frequent public perception and political debate, most security assistance does not go to prop up Third World repressive regimes. In fact, most security assistance doesn't go to what most people think of as the Third World at all. In the Administration's request for FY '86, fully 70% of all military assistance would go to the two Camp David countries -- Israel and Egypt, and to four NATO countries -- Spain, Portugal, Greece and Turkey. Depending on what figure is eventually agreed on with respect to economic support for Israel, some 55-60% of Economic Support Funds will go to those same countries.

This should not be surprising. After all, security assistance programs are not simply development or foreign assistance programs, but rather programs aimed at enhancing the security of the United States. Israel and Egypt, which were and are the keys to peace in the Middle East, have worked most closely with the United States in trying to end hostilities in a region which is of vital importance to our country. Hence it is to be expected that we have been most concerned about helping those countries meet their security requirements. In fact, the Congress has generally increased funding for those two countries, even above the requests of the Administration. In the FY '86 budget under consideration, those two countries account for roughly 50% of the total military assistance request.

Likewise the four NATO countries each are expected to perform specific roles within the NATO context. Each contains critical U.S. military and security related bases. Collectively they are the poorest of the NATO countries. It is, therefore, quite reasonable that we should assist those countries in obtaining the equipment necessary to fulfill their NATO responsibilities.

Turning to the minority share of security assistance which is actually made available to most of the Third World, we note that the larger programs are concentrated in Southeast and East Asia, Southwest Asia, and Central America. In the case of Thailand, we find one of the countries which was a "domino" of a decade ago, today is part of the dynamic economic growth area of the Pacific Rim. Yet as we watch the continuing tragedy of succeeding waves of Cambodian refugees, it is clear why Thailand must continue to maintain military preparedness. The Philippines, of course, provides the U.S. two of our most critical overseas bases. And Korea still faces a threat by its unpredictable neighbor to the north, which maintains the world's sixth largest standing army.

Finally, Honduras and El Salvador each are programmed to receive substantial military and financial assistance. The threat facing those countries is fairly obvious. Without going into the intricacies of the arguments on Central America, it might be useful to note the order of magnitude of these two programs. The total military program requested for Honduras and El Salvador represents less than four weeks of our expenditures for military assistance to the Camp David countries on an annualized basis. Yet Central America is in our back yard, and the Middle East isn't.

The dozen countries mentioned above account for 83% of the total military program request. With one or two exceptions, most of the remainder is slated for small programs for countries with particular security problems of concern to the United States. These countries, generally with minimal financial resources, face the same troublesome problem we face in our own defense budget -- modern weapons aren't cheap. An off-road five ton truck costs around $80,000, an unsophisticated armoured personnel carrier around $200,000, a helicopter which can carry troops or wounded about $2.5 million. In other words, a modest military assistance program of $2-10 million is truly modest in what it can be expected to purchase. And percentage reductions can make a program most difficult to administer -- after all, one cannot purchase 80% of a helicopter or truck.

Even if it is granted that the countries included in our security programs are important to the United States, it can be legitimately asked whether or not such programs work. The history of our assistance programs would tend to argue in the affirmative. Overall, the United States has more or less held its own in the Third World since World War II, while the Soviets have suffered major setbacks in Egypt, Indonesia, China, and Chile. Areas in which the U.S. historically invested the bulk of its foreign assistance resources -- East and Southeast Asia, South America, and the Mediterranean rim, are doing reasonably well. Soviet "successes", with the possible exceptions of Cuba and Nicaragua, have involved the world's absolutely poorest countries. In fact, Vietnam, Laos, Kampuchea and Ethiopia rank among the dozen or so poorest of the world's nearly 200 countries. If nothing else, we can say with some assurance that Afghanistan, Kampuchea, Vietnam, Ethiopia, and Cuba do not face a problem of political and economic refugees flooding into their countries. Their neighbors do.

Security assistance, of course, brings other benefits to the U.S. Purchase of U.S. military equipment increases employment and lowers the unit costs of such equipment to our own armed forces. Military training increases the mutual understanding between our forces and those of friendly countries. Supply of U.S. equipment and provision of training make it more likely that in a time of emergency, our forces would be able to work with those of recipient countries. And in general, a foreign soldier is both less costly to field and more effective in his own environs than a U.S. soldier. It is for these reasons that President Reagan, in his State of the Union address this year, commented that "dollar for dollar security assistance contributes as much to global security as our own defense budget."

In addition to supporting the general thrust of the security assistance program, ALESA does have some comments with respect to new initiatives proposed by the Administration in its draft legislation. For example, the new legislation would provide specific authority for FMS credits to be provided on a concessional basis. Such authority was, of course, provided temporarily in the Continuing Resolution for FY '85. This provision recognizes that some of the countries which need help in the security area are in difficult economic circumstances, and simply cannot or should not borrow at near market rates of interest. After all, it makes little sense to shore up a country's military capacity while at the same time undercutting its economy. Therefore, we strongly support providing clear statutory authority for having some flexibility in setting interests rates related to military sales.

In a similar vein, we believe it makes sense to allow the President to waive the requirement to reimburse the United States Government if it sells used MAP equipment, provided, of course, that the country meets all our licensing requirements regarding third country transfers. We would suggest that if this provision is approved, the Committee might consider making a specific reference to the idea that funds made available from such sales must be used to purchase replacement U.S.-made equipment.

ALESA also supports the idea of exempting certain safety related equipment from our restrictions on arms transfers. Surely no one is in favor of a young pilot putting his life at risk every time he is airborne simply because the United States has strong political differences with his government. Naturally such authority should be strictly limited to devices and equipment which are solely for the purpose of protecting and saving lives.

Finally, the Administration's requests to increase the capitalization of the Special Defense Acquisition Fund (SDAF) and to obtain authority to purchase more modern equipment which can replace U.S. inventory when that inventory is sold overseas, both seem to be sensible proposals. The SDAF helps smooth out production runs, assures rapid response to emergency needs of our partners, and avoids depleting U.S. inventories. Thus, it seems to provide economic and security benefits to both the United States and to friendly governments overseas.

As noted above, we support the concept of subsidized FMS credits to those friendly countries which face serious financial difficulties. However, as we noted in last year's testimony, we are concerned that on some recent occasions FMS credits have been used for such unconventional purposes as payment for research and development of foreign weapons systems and for procurement of goods and services produced offshore. There have also been increased pressures to include offset arrangements in contracts financed by FMS credits.

ALESA is concerned that such uses of FMS credits can lead to:

- --an inefficient use of limited resources,
- --the transfer of American jobs overseas,
- --the establishment with taxpayer's dollars of foreign defense industries which will compete with American products in third country markets,
- --a decrease in commonality of weapons systems among our allies,
- --an inducement for other FMS recipients to ask for similar treatment, and
- --a loss of political support for our security programs.

Therefore, ALESA strongly urges that the Congress and the Executive Branch consider the following policy suggestions:

- --FMS credits should be limited to the purchase of U.S. military end items and services.
- --Any exceptions to this policy should be extremely rare and relate to specifically defined U.S. security requirements or to clear cost reductions.
- --The U.S. Government should not accede to demands for offsets related to sales of defense equipment that are financed by grants or forgiven loans.
- --In principle, any use of U.S. financial assistance to develop, produce, or purchase foreign weapons systems should be conditioned on the beneficiary country agreeing not to compete against U.S. producers with that system in third country markets. The U.S. Government should refuse to license third country transfers of any U.S. technology or components involved in such systems under the above circumstances.

Mr. Chairman, in an ideal world we would not have to address the question of a security assistance program. Neighboring countries would respect each other's borders, and countries in a region would agree to limit the size of military establishments and the quantity and sophistication of military equipment acquisitions. We strongly urge the U.S. Government to do all in its power to support such objectives.

Meanwhile, however, we do not live in an ideal world. Whether or not we help our friends to protect themselves and to promote economic development, others will most assuredly assist those who are not friendly to our values and objectives. History tells us that it is cheaper in lives and treasure to prevent problems, than to correct them. It is in that context, Mr. Chairman, that we believe the government must continue to support an adeqate security assistance program.

SECURITY AND DEVELOPMENT ASSISTANCE

WEDNESDAY, MARCH 20, 1985

United States Senate,
Committee on Foreign Relations,
Washington, DC.

The committee met, pursuant to notice, at 9:35 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Richard G. Lugar (chairman of the committee) presiding.

Present: Senators Lugar, Murkowski, Evans, Pell, Biden, Sarbanes, Cranston, and Dodd.

The Chairman. This hearing of the Foreign Relations Committee is called to order.

Today we continue the process of examining the administration's fiscal year 1986 foreign assistance recommendations. Last Friday, Secretary Shultz provided the committee a broad overview of the administration's fiscal year 1986 economic and military assistance proposals and the other accounts in the international affairs function. This morning we will focus our attention on the economic and military assistance requests, and we welcome Under Secretary Schneider and Lieutenant General Gast to provide the details in those requests.

The fiscal year 1986 authorization bill includes nearly a 6-percent increase over current funding levels for fiscal year 1985. This increase will be higher when the economic support fund request for Israel is submitted. The Congress has been supportive of past administration proposals for both security and economic assistance because it recognized that the interests of the United States cannot be divorced from the well-being and interests of friendly countries around the world.

This year we are resolved to scrutinize the foreign aid request very closely, because we are committed to the process of holding down Federal spending in order to tame the growth in Federal deficits. It is my hope that our witnesses today will have some constructive options for furthering our foreign policy and security objectives through foreign aid without adding to our deficit problems.

On the security assistance side, the committee recognizes that our financing programs help us to retain overseas bases and to acquire access to regional military facilities critical to our forward defenses. These programs also assist friendly frontline countries to cope with internal or cross-border threats, such as those in Central America, Southeast Asia, and Northern Africa.

In the Middle East, our programs with Israel and Egypt have been essential levers for nurturing the peace process, and I note that most of the proposed increase in the fiscal year 1986 military assistance is for these two Camp David countries.

On the economic assistance side, the administration proposal for all AID-administered assistance is an increase over the current fiscal year level, but does not include a recommendation for Israel. The committee eagerly awaits an administration proposal for Israel and we hope to hear more on that today.

Under Secretary Schneider and Lieutenant General Gast, I would like to welcome you to the committee this morning as we continue the legislative process for fiscal year 1986.

It is my intention to continue this hearing until we break for a joint meeting of Congress to greet Argentine President Alfonsin, after which we will reconvene to hear the Agency for International Development Administrator Peter McPherson.

It is my hope that we may conclude your testimony prior to the break for President Alfonsin. We would request, in the event that that is not possible, that you be available for further questioning following that break. And in order to set some parameters for what I think will occur this morning, it appears that we will leave this room at about 10:35 to 10:40 to join our colleagues for the march over to the House, and we will reconvene the hearing here at noon and proceed on until we have concluded with all of our witnesses today.

When Senator Pell arrives, I will ask him if he has an additional statement. But in view of the fact that we are going to recess within an hour, at this point I would like to ask you to proceed. To the extent that you wish, I can assure you that all prepared testimony will be made a part of the record. If you wish to summarize the testimony, we can proceed to questions.

Secretary Schneider.

STATEMENT OF HON. WILLIAM SCHNEIDER, JR., UNDER SECRETARY FOR SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY, DEPARTMENT OF STATE

Mr. SCHNEIDER. Thank you, Mr. Chairman.

I do have a statement of considerable length, and I have also a summary, which I would be pleased to provide now to meet your time schedule.

The CHAIRMAN. Very well.

Mr. SCHNEIDER. I am pleased to appear before you today to discuss the administration's proposed fiscal year 1986 security assistance program. As the Secretary indicated to you last week in his overview of the entire program, foreign assistance is a prudent investment abroad. It assists us in the effective implementation of our foreign policy objectives, promotes global economic and political freedom, and reflects the humanitarian concerns of the American people.

Foreign assistance is also one of the most cost-effective means at our disposal for enhancing our own national security. Even under the best of economic and budgetary circumstances, however, there are limits to the amount of financial assistance which the United States can or should provide to our friends and allies.

This year, as the President has made clear, we must deal with the structural deficit in the Federal budget in order to maintain a healthy U.S. financial system and continued noninflationary economic growth. At the same time, we must not abdicate our global responsibilities.

Security assistance is especially important in the pursuit of some of our key foreign policy goals, as well as in meeting national defense imperatives. For that reason, the security assistance requests, when an economic support fund request for Israel is made, will be greater than the amount enacted in fiscal year 1985.

As the Secretary testified before the Senate Budget Committee, however, these increases are more than offset in other parts of the overall international affairs budget function 150. These security assistance increases reflect a reordering of priorities within the international affairs budget function.

Even with these increases, however, a decrease in the overall level of Federal activity in the international arena will still result. We have prepared a security assistance proposal that represents the minimum level of resources necessary to meet our foreign policy and defense needs.

In fiscal year 1986, we are requesting $9.5 billion in security assistance—$6.7 billion in military assistance programs and $2.8 billion in economic support funds assistance. The request for Israel has not been included in the fiscal year 1986 ESF program. Once this amount is included, the ESF level will, as the Secretary has testified before me, undoubtedly exceed the ESF level appropriated in the fiscal year 1985 CR.

An $860 million increase in foreign military sales credits and grant military assistance program over the levels in the fiscal year 1985 continuing resolution can largely be attributed to increased levels for only four countries: Egypt, Israel, the Philippines, and Turkey. All four are friends with whom we have a close security relationship. The latter two are base rights countries whose armed forces are in dire need of modernization or improvement.

The fiscal year 1986 security assistance program was carefully developed through an extensive interagency process which thoroughly reviewed each program. We identified and assigned relative priorities to our key strategic objectives and coordinated them with foreign policy and defense planning and with development assistance priorities.

The fiscal year 1986 program has been crafted in accordance with the administration's extraordinary effort to restrict budget growth. As a result of this process, 93 percent of the total fiscal year 1986 security assistance request is devoted to four categories of vital strategic interest and commitments in areas where we have virtually no flexibility to reduce these levels. These categories are: Israel and Egypt, base rights countries, frontline and military access states, and Central America and the Caribbean.

One of our highest priorities continues to be to bring a just and enduring end to the conflict and turmoil which has disturbed the Middle East for so long. Our assistance plays a crucial role. For that reason, within the overall security assistance program the largest single component, 41 percent, is devoted to Israel and Egypt to support Middle East stability and peace. When an ESF request is made for Israel, this percentage of the total will increase and the percentage for other country groupings will decrease correspondingly.

Recently there have been encouraging developments made in the search for peace between Israel and its neighbors. The Israel offer to negotiate with Jordan without preconditions, King Hussein's initiatives with the Palestinians, and President Mubarak's efforts to spur the peace process forward are noteworthy positive steps.

We have also been following the Jordan-PLO dialog and believe that if an agreement promotes negotiations between Jordan and Israel it would be a positive step. We know that this means threats to Jordan's security from those who oppose progress toward peace.

In recent days we have had useful discussions with President Mubarak in which we agreed on the importance of seeking realistic and practical steps to move toward direct negotiations. We also agreed that the momentum which has been given to the peace process should be maintained and built upon. In this connection, we have held discussions with the Jordanian foreign minister.

The countries which provide the United States with the right to utilize territory to maintain bases are critical to the forward projection of our global defense posture. These base rights countries—Spain, Portugal, Greece, Turkey, and the Philippines—account for $2.3 billion or 24 percent of the total security assistance request. The requested levels for those countries are essential to sustain confidence in the best efforts pledges which underpin all U.S. base agreements.

Thus, seven countries—Israel, Egypt, and the five base rights countries—receive almost two-thirds of all security assistance requests.

A number of U.S. security assistance recipients, such as Korea and Thailand, face hostile Soviet or Soviet-backed states across their borders. Others, like Oman, permit the United States to use storage facilities or provide access arrangements which are important to the execution of U.S. military exercises and the staging of U.S. forces in a crisis. These military access and frontline states are provided with a further 16 percent of the total security assistance request.

There has been a definite and sustained progress toward democracy and stable political processes in Central America and, indeed, throughout the hemisphere, notwithstanding the continuing efforts of Soviet and Cuban-backed insurgencies to undermine the political and economic fabric of the Central American governments.

There has also been a turn-around in the ability of the Salvadoran armed forces to conduct counterinsurgency operations. The momentum is clearly with our friends in the region.

Our fiscal year 1986 request for Central America is essentially one of continuity, to sustain and further the progress made in implementing the recommendations of the National Bipartisan Commission on Central America. These strategically and politically important countries in Central America, as well as those in the Caribbean, account for another 11 percent of the fiscal year 1986 request.

We have little choice but to provide Israel and Egypt, base rights countries, Central America and the Caribbean, and the military access frontline states with the level of resources that are either required by treaty or are necessary to help ensure their and our security. After security assistance has been provided to these countries, however, only about 7 percent or $654 million is left for more than 75 country and regional programs scattered around the globe.

While many of these nations are provided only small international military education and training programs, others have more pressing security needs which must be addressed, even though they do not fall into the four priority categories I have just discussed.

Into this "all other" category fall many of the African countries critical to our security interests, as well as the economically hard-pressed smaller democratic Andean countries. There are, of course, many more for which time will not permit a full discussion.

Suffice it to say, however, that the only real flexibility we have in the security assistance program is in this final area, and even here we are limited by resources—only $654 million—and the damage to our interests that elimination of some of these small programs might bring about.

For fiscal year 1986 we have resubmitted most of last year's proposed changes to the Foreign Assistance Act of 1961 as amended and to the Arms Export Control Act, in addition to several new proposals. These would materially increase the effectiveness of the management of the security assistance program. For several years, this committee has considered favorably a number of these initiatives. The lack of enacted authorization bills, however, during this period has precluded their ultimate implementation.

In 1981, this administration pledged to rebuild the leadership role of the United States in world affairs. We moved to formulate a coherent, consistent foreign policy in which the entire range of assistance programs—bilateral and multilateral, economic and military—are used effectively to further U.S. political, economic, and humanitarian interests, and to enhance our security and the security of our friends around the world. We have made considerable progress in the last 4 years, and I am convinced more than ever that the programs we have implemented are effective. We are moving in the right direction.

Mr. Chairman, U.S. strategic interests and commitments have dictated a set of priorities which we have attempted to implement, leaving few resources and very little flexibility to fulfill the needs of our other friends and allies. The fiscal year 1986 program I have presented to you today represents the minimum funding essential to meet national security objectives and conduct a coherent and responsible foreign policy.

Let us continue to move forward with a program that we know works. I hope that this committee and the Congress will give the fiscal year 1986 foreign assistance program its full support.

Thank you very much, Mr. Chairman.

[Mr. Schneider's prepared statement follows:]

PREPARED STATEMENT OF HON. WILLIAM SCHNEIDER, JR.

INTRODUCTION

Mr. Chairman, Members of the Committee, I am pleased to appear before you today to discuss the Administration's proposed FY 1986 security assistance program. As the Secretary indicated to you last week in his overview of the entire program, foreign assistance is a prudent investment abroad. It assists us in the effective implementation of our foreign policy objectives, promotes global economic and political freedom, and reflects the humanitarian concerns of the American people. Foreign assistance is also one of the most cost-effective means at our disposal for enhancing our national security.

A year ago I testified before you on the three most difficult but vitally important issues facing our security assistance program at that time: the Soviet and Cuban-backed insurgency in Central America, the acute tensions in the Middle East, and the critical and growing debt burdens of many developing countries. There have been, and will be, no easy, quick solutions to these problems, but I can assure you today that we have made progress in each of these critical areas.

First, looking at the area closest to home, there is definite and sustained progress toward democracy and stable political processes in Central America and, indeed, throughout the Hemisphere, notwithstanding the continuing efforts of Soviet and Cuban-backed insurgents to undermine the political and economic fabric of Central American governments. El Salvador now has a democratically elected government whose legitimacy is recognized by its own populace and by the world's democratic community. There has been a sharp decline in political violence in that country and a growing acceptance of democratic institutions. Bolstering these positive political developments, the Salvadoran military has demonstrated an increasing professionalism and ability to work within the guidelines established by President Duarte; there has also been a turnaround in their ability to conduct counter-insurgency operations.

Elsewhere in Central America progress has been equally impressive. In neighboring Honduras, new Presidential elections are scheduled for later this year. Panama and Belize have both recently held democratic elections. Constituent Assembly elections in Guatemala eight months ago were widely accepted as honest and open, and a democratically elected President will take office early next year. Costa Rica maintains its strong democratic traditions. U.S. economic and security assistance has been, and will continue to be, vital for the continuation of this progress in the region, especially in the face of Nicaragua's Soviet and Cuban backed destabilization efforts.

Second, there have also been modest positive developments in the quest for peace between Israel and its neighbors. The Israeli offer last September to negotiate with Jordan without preconditions and the recently initiated phased withdrawal of Israel's armed forces from Lebanon have helped create an atmosphere more conducive to progress toward negotiations. Likewise, the resumption of diplomatic relations between Jordan and Egypt -- two Arab states which support a peaceful settlement -- is a promising development. We have also been following the Jordan-PLO dialogue and believe that if an agreement promotes negotiations between Jordan and Israel, it would be a positive step. We know that this means threats to Jordan's security from those who oppose the peace. In recent days, we have had useful discussions with President Mubarak in which we agreed on the importance of seeking realistic and practical steps to move the peace process forward. We have also held discussions with the Jordanian Foreign Minister on developments in the peace process.

U.S. security assistance has not been the only contributing factor in these two vital areas of the world. It has, however, played an important role. Because the Administration and Congress, working together, have been able to increase the levels of our security assistance during the past few years, we now have on-going effective programs that are beginning to show clear signs of success. We are unquestionably on the right track; we must continue to press the advantages already gained; we must not let up now.

Third, last year I also described to you the critical debt service burden facing many countries around the world. Although much remains to be done, we believe the worst of the debt crisis is behind us. For example, in Latin America, where fully half of the LDC debt problem is concentrated, there has been a significant improvement in the region's current account deficit and economic growth has returned to the region as a whole. Though much of the credit must go to the difficult adjustment efforts undertaken by many of these countries, the U.S.-led worldwide economic recovery clearly has been a major benefit in spurring this turnaround.

The positive Congressional response to the FY 1985 Administration request to place Foreign Military Sales (FMS) financing on-budget has made possible the initiation of a modest, but much-needed concessional FMS financing program. Along with increases in MAP grants, concessional FMS lending is an important U.S. effort to help security partners who often face either more debt or heightened military vulnerability. This flexibility has permitted us to tailor comprehensive security assistance programs which take into account the economic circumstances of needy friends and allies.

Even under the best of economic and budgetary circumstances, however, there are limits to the amount of financial assistance which the United States can or should provide to our friends and allies. This year, as the President has made clear, we must deal with the structural deficit in the federal budget in order to maintain a healthy U.S. financial system and continued non-inflationary economic growth. At the same time, we must not abdicate our global responsibilities.

Security assistance is especially important in the pursuit of some of our key foreign policy goals as well as in meeting national defense imperatives. For that reason the security assistance proposal, when an Economic Support Fund (ESF) request for Israel is made, will be greater than the amount enacted for FY 1985. As the Secretary testified before the Senate Budget Committee, however, these increases are more than offset in other parts of the overall International Affairs budget function 150. These security assistance increases reflect a reordering of priorities within the International Affairs budget function. Even with these increases, however, a decrease in the overall level of federal activity in the international area will still result. As I will demonstrate later in my testimony, we have prepared a security assistance proposal that represents the minimum level of resources necessary to meet our foreign policy/national security needs.

FY 1986 PROGRAMS AND THEIR VALUE

Security assistance contributes directly to the security of the United States and at the same time lowers defense costs. It:

-- enables our friends and allies to obtain military equipment and training to defend their independence and territorial integrity, permitting them in some cases to undertake responsibilities which otherwise we ourselves might have to assume.

-- furnishes tangible evidence of our support for the independence and territorial integrity of our friends and allies, thus deterring possible aggression and promoting regional stability.

-- contributes to the broad cooperative relationships which permit the presence of U.S. facilities or access by U.S. forces to host country facilities in time of threat to mutual interests, thereby reducing the cost of U.S. defense.

-- provides a means of demonstrating U.S. constancy and willingness to stay the course in support of nations whose survival constitutes a basic purpose of our foreign policy.

-- helps alleviate the economic and social distress that breeds domestic violence and invites external subversion -- particularly important for countries whose necessary military expenditures would otherwise impose severe strains on their economies.

-- and also provides to the U.S. and foreign buyer the benefits of consolidated planning and economies of scale.

The FY 1986 security assistance program was carefully developed through an extensive interagency process which thoroughly reviewed each program. We first identified and assigned relative priorities to our key strategic objectives and coordinated them with foreign policy and defense planning. Then we designed a security assistance program and integrated it with development assistance priorities. The FY 1986 program has been crafted in accordance with the Administration's extraordinary effort to restrict budget growth. At the same time, each recipient country has been provided with the specific mix of program resources which we believe will best meet its needs.

As a result of this process, for FY 1986 we are requesting $9.5 billion in security assistance -- $6.7 billion in military assistance programs and $2.8 billion in ESF assistance. This ESF request level, of course, does not contain an amount for

Israel. Once this amount is included, the ESF level will, as the Secretary has testified before me, undoubtedly exceed the ESF level appropriated in the FY 1985 CR.

Military Assistance Programs. An $860 million increase in Foreign Military Sales (FMS) credits and grant military assistance over the levels in the FY 1985 Continuing Resolution can largely be accounted for by increased levels for only four countries: Egypt, Israel, the Philippines and Turkey. All four are friends with whom we have close security cooperation. The latter two countries are base rights countries whose armed forces are in dire need of modernization or improvement.

For our largest security assistance program -- the Foreign Military Sales (FMS) credit program -- we are requesting $5.7 billion for programs in 27 countries. These programs enable eligible countries to purchase U.S. equipment, spare parts and training. With the exception of a few country programs which were raised in limited amounts, virtually all of the increase in the FMS financing program level over FY 1985 is for Egypt and Israel: an increase of $125 million (to $1.3 billion) for Egypt, and of $400 million (to $1.8 billion) for Israel. The $3.1 billion request for these two countries is almost 55 percent of the total FMS credit package. Twelve percent of the FMS program, or $651 million, is to be devoted to concessional financing for 15 countries. $1.9 billion, or almost 34 percent of the total FMS program, will be in the form of Treasury rate financing for 16 individual country programs.

In the Military Assistance Program (MAP), we are requesting $949 million for 36 country and regional programs. This is a 15 percent increase over the FY 1985 CR level and represents a continuing effort to provide more grant assistance to the poorer countries. Providing grant funding for defense articles and services, MAP is vital to financially strapped countries which otherwise either would have to forego providing for their defense or would have to divert scarce resources from economic development needs.

We consider the $65.7 million requested for the International Military Education and Training (IMET) program to be one of the most important, albeit one of the smallest, parts of our security assistance budget. These grants not only provide needed professional military training, but they also represent a low-cost method of providing a valuable channel of communication and influence with an important sector of a country's leadership, especially in the Third World, exposing trainees to such U.S. values as respect for democracy and observance of human rights.

Economic Support Fund. The ESF program at $2.8 billion reflects the continuing U.S. concern for the economic problems faced by our friends and allies. This form of economic, rather than military, assistance is provided on a grant or loan basis to countries selected for their special political and security interest to the U.S. It comprises approximately 30 percent of the total FY 1986 security assistance program. As I noted earlier, a request for Israel has not yet been included in our FY 1986 ESF program. We recognize the time constraints facing this Committee on this issue and we will make our request as soon as we can.

Finally, our FY 1986 proposal includes $37 million for Peacekeeping Operations (PKO) funding. This will support multilateral activities in the Sinai and Cyprus.

WORLDWIDE PROGRAMS

Within the overall security assistance program, the largest single component -- 41 percent -- is devoted to Israel and Egypt to support Middle East stability and peace. When an ESF request is made for Israel, this percentage of the total will increase and the percentage for other country groupings will decrease correspondingly. Base rights countries -- Spain, Portugal, Greece, Turkey and the Philippines -- account for 24 percent. These seven countries receive almost two-thirds of all security assistance. Military access and front-line states are provided 16 percent, while the strategically and politically important countries in Central America and the Caribbean account for another 11 percent. We have little choice but to provide those countries with the level of resources that are either required by treaty or are necessary to help insure their (and our) security. As a result, only 7 percent of the total FY 1986 security assistance request is left for all other country and regional programs programs (over 75). The only real flexiblity we have is in this final area and even here we are limited by resources (only $654 million) and the damage to our interests that elimination of some of these small programs might bring about.

Egypt and Israel. One of our highest priorities continues to be to bring a just and enduring end to the conflict and turmoil which has disturbed the Middle East for so long. Our assistance plays a crucial role. For that reason, the principal recipients of our world-wide request remain Israel and Egypt.

We believe that Israel must maintain confidence in its security if it is to take risks for peace. As a result of a bilateral review of Israeli defense requirements, we have increased the level of forgiven FMS financing substantially from $1.4 billion in FY 1985 to $1.8 billion in FY 1986. In a similar fashion the FY 1986 forgiven FMS financing program for Egypt has been increased to $1.3 billion to give it credible deterrence against Soviet armed radical states opposed to the Camp David accords and the Egyptian-Israeli peace treaty.

In FY 1986 we plan to provide the same level of ESF support to Egypt as that appropriated by Congress for FY 1985. As I indicated earlier, an ESF request for Israel will be made at a later date.

Base Rights Countries. Countries which provide the U.S. with the right to utilize territory to maintain bases are critical to the forward projection of our global defense posture. Security assistance for those countries at the requested levels is essential to sustain confidence in the best efforts pledges which underpin all U.S. base agreements. Security assistance in FY 1986 totals $2.3 billion for the five base rights countries.

Greece and Turkey are essential to the continued viability of the southern flank of NATO. In addition to controlling Soviet naval access to the Mediterranean, Turkey is strategically positioned along the flank of the USSR's Transcaucasus region, where the Soviets have substantially increased their forces.

At $785 million, the FY 1986 MAP and FMS financing request for Turkey is $85 million higher than the amount allocated under the FY 1985 CR. Although a more significant increase could be justified on programmatic grounds, the amount requested is the minimum necessary to assist Turkey to meet its NATO commitments through force modernization, including purchase of F-16 aircraft. Furthermore, we are proposing that a larger portion of the Turkey program be on a concessional basis to avoid undercutting that country's stringent economic stabilization program that has helped turn the country's economy around. While we are proposing an increase in military assistance, improvements in Turkey's economic performance have allowed us to lower our ESF request to $150 million.

We continue to pursue vigorously progress on Cyprus. The Government of Turkey has accepted and supported the Secretary General's initiative. This initiative offers the best available prospect for success. We must not undermine it by considering punitive conditions on assistance to Turkey which can only stiffen the resistance of those who oppose compromise.

Our request for Greece is identical to last year's. U.S. security assistance for Greece assists in armed forces' modernization to meet both Greek and NATO defense needs, and has helped to ensure continued use of four U.S. military facilities and a number of smaller installations.

Our security assistance program plays an important role in helping Spain to consolidate its new democratic institutions and meet NATO modernization standards. The FY 1986 request for this country, which permits U.S. use of Spanish military facilities, is the same as we are providing in FY 1985.

Portugal is a reliable NATO ally which provides the U.S. with access to the strategic Lajes Air Base facilities. The modest increase in the FY 1986 request over the FY 1985 program level for Portugal results primarily from an increase in FMS financing. This increase meets the U.S. commitment to a "rising trend" in security assistance, made during the negotiations for the 1983 renewal of our bases access agreement and will also enable Portugal to continue its ambitious military modernization program.

In the Philippines security assistance supports a vital defense relationship. The basic framework for our request is the Presidential "best efforts" commitment made in connection with the five-year review of our Military Base Agreement in 1983. Our security assistance program of $195 million for the Philippines seeks to alleviate the Philippines' most critical economic crisis since World War II and to counter the growing armed insurgency by the Communist Party's military arm. Our security assistance is linked to economic and military reform, the revitalization of democratic institutions and long-term economic growth. The ESF request is for $95 million. The military assistance request has been increased primarily to deal with the insurgency but also to account for the FY 1985 shift of much of the FMS request to ESF. An improvement in the grant and concessional nature of our requested military assistance reflects our concern for the deteriorating Philippine economy.

Military Access/Frontline States. A number of U.S. security assistance recipients, such as Korea and Thailand, face hostile Soviet or Soviet-backed states across their borders. Others, like Oman, permit the U.S. to use storage facilities or provide access arrangements which are important to the execution of U.S. military exercises and the staging of U.S. forces in a crisis. I will comment on a few of these key allies.

Within this grouping of countries, we have valuable treaty allies such as Korea where almost 40,000 U.S. troops are located. Our military assistance to this country is modestly increased over FY 1985 levels in order to assist with the Korean Force Improvement Plan.

Thailand, another front-line state, faces Soviet-supported Vietnamese aggression in Cambodia from military forces larger and better equipped than its own. Our program is designed to help the Thai build a credible deterrent force to cope with increasingly serious Vietnamese incursions and to help them manage the rising economic costs of massive displacements of civilian border populations resulting from the fighting in Cambodia. Other key friends such as Sudan face serious security threats from Libyan adventurism.

Pakistan, also in this grouping, is a vital participant in international efforts to resolve the crisis created by the Soviet invasion of Afghanistan. Our assistance package to Pakistan is part of a six-year program to help that country to improve its defense capabilities and economic performance. The small overall increase to $576.2 million in our security assistance program with Pakistan reflects planning levels determined for the six-year program, is almost entirely in the ESF account, and partially reflects a decline in our requested levels of development assistance.

On the Arabian Peninsula Oman is the only country where we have a formal access agreement which provides access to U.S. military forces in peacetime and contingency and allows the U.S. to preposition military materiel at several locations. Oman is a strong supporter of Camp David and the President's September 1982 initiative. Continued security cooperation with Oman and enhancement of its self-defense capability are key to preserving our access to the Gulf and its vital resources.

Central America and the Caribbean. As I indicated earlier, progress is being made in Central America on both the political and military fronts. The momentum is clearly with our friends in the region. I am encouraged and confident that our security assistance funding has been a key factor in these positive developments. The appropriation by Congress of adequate FY 1985 security assistance and an increased level for FY 1984 through a supplemental for Central America has gone a long way toward implementation of the recommendation of the National Bipartisan Commission on Central America for "greater continuity and predictability" in our aid to that beleaguered area. Nevertheless, the guerrillas in El Salvador remain a serious threat and must be dealt with, Nicaragua still threatens to destabilize the entire region and economic problems remain.

Our FY 1986 request for Central America is essentially one of continuity to sustain and further the progress made in implementing the National Bipartisan Commission's recommendations. For FY 1986 over 70 percent, or $601 million, of the security assistance requested for Central America is in the form of ESF. This assistance will continue our support for the resolution of the economic crisis plaguing the area. (There is also an additional $379 million in development and food aid proposed for the area.) To enable our economic assistance to be effective, we plan to devote $254 million in military assistance to safeguard the further development of democracy and economic growth against anti-democratic forces.

As in FY 1985, El Salvador is to be the largest recipient of security assistance in Central America. The proposed $132.6 million in military assistance represents only a small increase over the enacted FY 1985 level and will help provide the security necessary to sustain critical economic, social and political programs. Our ESF request of $210 million is crucial to the maintenance of economic stability in the face of continued destabilization efforts by the insurgents. It will enable the Salvadoran Government to procure commodities, including equipment to restore and maintain internal communication, marketing and distribution links, and to assist displaced families.

Neighboring Honduras has serious financial difficulties exacerbated by its proximity to the area's trouble spots. The use of $80 million in ESF to fulfill a need for fast-disbursing non-project assistance will be negotiated within the context of a U.S.-Honduran economic working group. Grant MAP totaling $87 million is to be applied to the critically needed Honduran program of selective modernization and expansion of its armed forces.

Costa Rica, an historically secure democracy, nevertheless faces security challenges and considerable economic stress. $2.5 million in MAP grants is to be largely dedicated to the maintenance of previously provided equipment. An ESF program of $150 million is planned for Costa Rica to assist in stabilizing the economy and establishing an export-led recovery.

For Guatemala our total security assistance request of $35.3 million -- $10.3 million in military assistance, and $25 million in ESF -- is less than our request for FY 1985 although more than the amount allocated from FY 1985 appropriations. Guatemala is preparing for Presidential elections this year. Our program is designed to encourage further movement toward democracy, and to assist the Government of Guatemala to redirect resources to solve socio-economic problems and overcome local insurgency. It would be counterproductive if this assistance were to be again restricted as in the FY 1985 CR.

Lesser amounts of military assistance are requested for Belize, Panama, the Panama Canal Area Military Schools, and for the U.S. Army School of the Americas at its Ft. Benning, Georgia transitional training facility.

The Caribbean area still faces severe economic problems which we are now attempting to address with ESF levels that are substantially higher than those for military assistance.

Nevertheless, the island nations of the Eastern Caribbean have small or no regular defense forces and require modest amounts of U.S. military assistance to enhance their capabilities and give them the capacity to protect themselves. An adequate amount of economic and security assistance to this area is essential if we are to maintain stability in the region and avoid future Grenadas.

All Other Country and Regional Programs. After security assistance has been provided to Israel and Egypt, base rights countries, Central America and the Caribbean and military access/front-line states, only about 7 percent (or $654 million) is left for more than 75 country and regional programs scattered around the globe. While many of the nations in the "All Other" category are provided only small IMET programs, others have much more pressing security needs which must be addressed even though they do not fall into the four priority categories that I have just discussed.

Peru, for example, is struggling against the brutal Maoist "Sendero Luminoso" insurgency as well as drug trafffickers. We plan to assist Peru in dealing more effectively with its threats to internal stability while encouraging efforts at arms supply diversification.

We have also requested a new FY 1986 ESF initiative for three Andean democracies -- Ecuador, Peru and Bolivia. The negative effects of almost hemispheric wide economic difficulties have hit these smaller democratic countries especially hard. Their economic problems have been compounded by major damage from the "El Nino" climatic disaster of two years ago. Political stress, especially in Peru, has resulted from terrorism and narcotics trafficking. We are proposing $70 million in ESF for these three countries to help alleviate some of their more pressing problems.

Africa also represents critical security interests to the U.S. and a number of African programs fall within this "all other" grouping. Africa is important for its vital mineral resources, U.S. investment and its proximity to our interests in Southwest Asia. In East and southern Africa the destabilizing influence of the Soviets must be countered. Our primary objectives continue to be the withdrawal of Cuban troops from Angola leading to a peaceful settlement in Namibia, and a change in South Africa's system of apartheid.

Africa today faces the most critical test in its history -- the continuing economic crisis compounded by drought. Our ESF programs in Africa, in conjunction with other forms of economic assistance, are designed to help spur economic development in the face of famine and economic stagnation. An important element of our FY 1986 African ESF program is the $75 million request for helping those countries who are taking difficult but positive steps toward economic reform. To initiate this activity the Congress appropriated $75 million for FY 1985. Although it is still in an early stage of implementation, we believe we can be successful in continuing to stimulate the visible trend in many African countries toward free market economies and away from statist economic approaches.

For FY 1986 modest MAP and IMET programs are proposed for Burma. One of the world's poorest nations, Burma is struggling against an insurgency which is heavily supported by illicit narcotics production and trafficking. We believe the small program we are proposing can contribute to strengthening U.S. and Burmese relations and to their dealing more effectively with this internal security problem.

I have highlighted only a few of the small but important security assistance programs in this "all other" category. There are, of course, many more for which time will not permit a full discussion. Suffice it to say, however, that any reductions in our program will fall heavily in this small area of flexibility. In some cases, entire country programs will be in jeopardy.

FY 1986 LEGISLATIVE PROPOSALS

For several years this Committee has considered favorably a number of proposed changes to the Foreign Assistance Act (FAA) of 1961, as amended, and to the Arms Export Control Act (AECA) which would materially increase the effective management of the security assistance program. The lack of an enacted authorization bill during this period, however, has precluded their ultimate implementation. For FY 1986 we have resubmited most of last year's initiatives in addition to several new ones.

New Proposals. First, we are proposing that the procedures governing the Special Defense Acquisition Fund (SDAF) be streamlined. SDAF has now operated with success for three years, but we need some refinements in the law. In the foreign assistance appropriations legislation we have requested authority to obligate SDAF funds over a three-year period. We are also proposing certain modifications to the existing legislation governing the SDAF. One such modification would permit the fund to be used to acquire defense articles and services in anticipation of their transfer to the Department of Defense to replace items transferred from DoD inventory to foreign countries. This would assist in maintaining the readiness of the U.S. Services while facilitating the transfer of less advanced systems in the inventory of DoD to foreign countries. The other legislative change would allow the fund to be used to keep on continuous order such defense articles and services as are assigned by DoD for integrated management by the Defense Logistics Agency in anticipation of the transfer of similar defense articles and services for foreign countries.

Another proposal would amend section 24 of the AECA to authorize and make available funds to pay claims based on defaults and reschedulings of outstanding FMS loans. A long-term mechanism for maintaining the integrity of the Guarantee Reserve Fund (GRF), this proposal for a Guarantee Reserve will treat the GR as most of the federal government's guarantee reserve programs are already treated, which is to put it on a permanent authorization basis and fund it as necessary. It will eliminate the need for yearly authorization and appropriation. We believe that this is a more practical and efficient way to handle this fund.

In addition, we propose to amend the AECA to waive contract administration charges on a reciprocal basis with NATO allies as we already do for quality assurance, inspection and contract audit defense services.

Also in the NATO context and at the request of the House Foreign Affairs Committee, we are requesting authorization to continue the implementation of the Patriot agreement

(Cooperative Agreements on Air Defense in Central Europe) which was authorized for FY 1985 in the DoD Authorization Act.

We also seeking to conform the calculation of the costs of training using MAP funds to the calculations of costs of IMET by excluding the costs of salaries of members of the U.S. Services from the pricing.

Because the provision of training is so important for increasing professional skills and exposing foreign nationals to U.S. values, including human rights, we have included another training initiative this year. This proposal would permit training from development, ESF, MAP and IMET funds, notwithstanding certain general or country-specific prohibitions on the provision of assistance that would otherwise be applicable. The training programs would be relatively modest in size and the allocation of funds for such programs will remain subject to all Congressional oversight requirements. Further, the human rights provisions of the FAA (sections 116 and 502B) and the prohibition against police training (section 660) would continue to apply.

Because of certain country-specific and other restrictions, some countries have not been able to obtain items necessary for the safe operation of previously supplied U.S. origin equipment. For example, Chile has F-5 and A-37 aircraft purchased from the United States a decade or more ago. Items such as ejection seat cartridges for these aircraft are manufactured only in the United States. If they are not replaced when worn out, the operation of the aircraft becomes very hazardous. Should the U.S. be in the position of denying such equipment needed to avert life-threatening situations? We think not. We are therefore proposing an amendment which would permit the sale and licensing of items which are essential to the safe operation of previously-supplied equipment.

Another proposal would permit the transfer of defense articles and defense services on the U.S. Munitions List under the Anti-Terrorism Assistance (ATA) program when appropriate and necessary to deal with actual or potential terrorist incidents. In addition it would repeal the sunset provision on the ATA in order to provide a permanent authorization for the program.

We have also added Thailand to the list of countries which would be eligible to repay FMS Treasury rate loans at extended repayment terms of not more than 30 years (i.e., 20 years following a grace period of 10 years on principal). Thailand's strong economic growth has declined since 1982, its external debt has continued to grow rapidly and its balance of payments position has become more strained.

Proposals Resubmitted. A number of proposals are resubmissions from FY 1985. Modifications have been made in a few of these.

We are again proposing a new section 23 of the AECA which otherwise authorizes the provision of FMS credits. The entire FMS financing program was placed on-budget for FY 1985. We are able to implement a concessional loan program under current authorities. As last year, the proposed amendments would reflect more clearly and accurately the changed nature of the FMS financing program and allow the program to be managed more efficiently.

The Administration's FY 1985 proposal to help strengthen judicial systems in Central America and the Caribbean by authorizing the training and support of law enforcement agencies under carefully defined conditions has been resubmitted and expanded slightly to cover programs throughout Latin America and the Caribbean. Economic assistance funds, including ESF, could be used for such projects.

Other proposals that we are again requesting for FY 1986 include:

-- The addition of El Salvador, Honduras, Pakistan, Sudan, Tunisia and Venezuela to the list of countries authorized to have more than six U.S. military personnel assigned in-country to security assistance programs.

-- A waiver of the return of old MAP equipment proceeds.

-- Reciprocal provision, without charge, of catalogue data and services to NATO countries.

-- Authority for the President, with a Presidential determination, to remove prohibitions against assistance to certain countries, most particularly the People's Republic of China, contained in section 620(f). This year's proposal is identical to the provision passed in H.R.5119 last year.

-- Streamlining of reprogramming requirements.

-- Permitting no-cost exchange training on a one-to-one basis.

-- $25 million in emergency PKO drawdown authority.

-- An increase in penalties for violations of the AECA.

-- Authorization of maritime law enforcement assistance.

Other Provisions. We are also proposing to amend the FAA to establish a ceiling of $360 million in FY 1986 on the aggregate value of additions made to overseas stockpiles of defense articles in FY 1986, i.e., in Korea's stockpiles.

CONCLUSIONS

In 1981 this Administration pledged to rebuild the leadership role of the United States in world affairs. We moved to formulate a coherent, consistent foreign policy in which the entire range of assistance programs -- bilateral and multilateral, economic and military -- are used effectively to further U.S. political, economic and humanitarian interests and to enhance our security and the security of our friends around the world. We have made considerable progress in the last four years and I am convinced more than ever that the programs we have implemented are effective. We are moving in the right direction.

Mr. Chairman, U.S. strategic interests and commitments have dictated a set of priorities which we have attempted to implement -- leaving few resources and very little flexibility to fulfill the needs of other friends and allies. The FY 1986 program I have presented to you today represents the minimum funding essential to meet national security objectives and conduct a coherent and responsible foreign policy. Let us continue to move forward with a program that we know works. I hope that Congress will give the FY 1986 security assistance program its full support.

The CHAIRMAN. Thank you very much, Secretary Schneider. General Gast, will you proceed with your testimony.

STATEMENT OF LT. GEN. PHILIP C. GAST, DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY, ACCOMPANIED BY HENRY GAFFNEY, DIRECTOR OF PLANS, DSAA; AND JOHN ROWE, DSAA

General GAST. Thank you very much, Mr. Chairman. It is a pleasure to appear before the committee this morning.

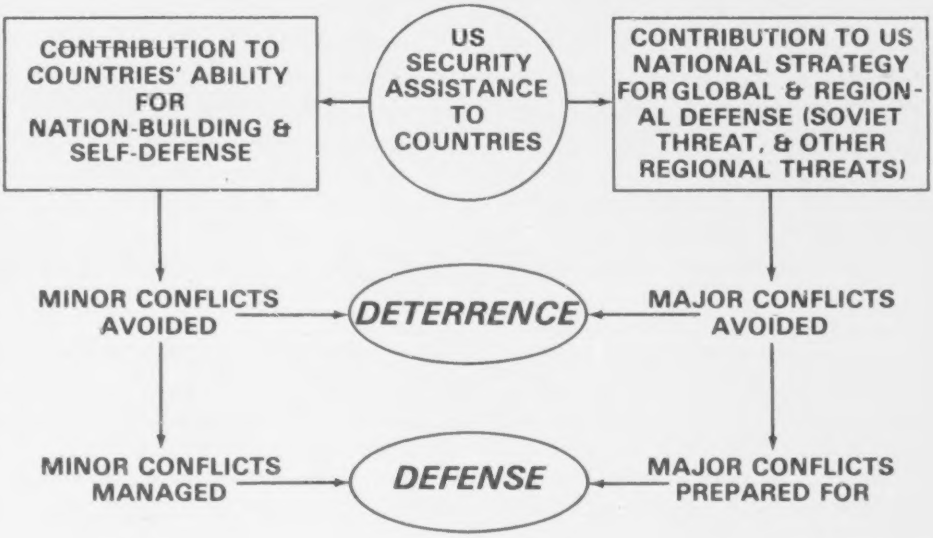
I, too, have a very lengthy testimony for the record. If I may, I would beg your permission to speak to a few charts, about which I will make a few very brief remarks.

The CHAIRMAN. We would be very pleased for you to proceed that way.

General GAST. Thank you.

As I indicated earlier, it is a pleasure for me to represent the Department of Defense in support of the State Department's proposed bill, and to start off by assuring you that we worked very closely with the State Department, other agencies, and AID to come up with an integrated budget which we believe will meet foreign policy objectives, the economic objectives, as well as our national defense objectives.

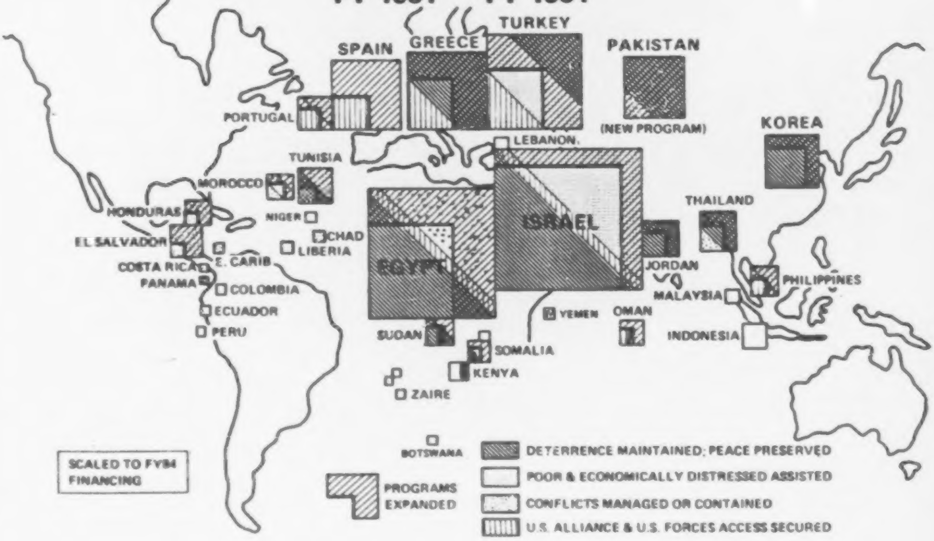
SECURITY ASSISTANCE OBJECTIVES


US SECURITY ASSISTANCE TO COUNTRIES
CONTRIBUTION TO COUNTRIES' ABILITY FOR NATION-BUILDING & SELF-DEFENSE
CONTRIBUTION TO US NATIONAL STRATEGY FOR GLOBAL & REGIONAL DEFENSE (SOVIET THREAT, & OTHER REGIONAL THREATS)
MINOR CONFLICTS AVOIDED
DETERRENCE
MAJOR CONFLICTS AVOIDED
MINOR CONFLICTS MANAGED
DEFENSE
MAJOR CONFLICTS PREPARED FOR

We look at security assistance in two ways, Mr. Chairman: one, it makes contributions to each individual country's capability to nation-build and to provide for its own defense, so that it can avoid minor conflicts by having strength, whether it is economic or military, and to avoid minor crises and conflicts.

But we also look at it, as we address each individual country in a larger context, in relation to our own national global strategy as well as regional strategies to meet the Soviet threat and other regional threats which are against our objectives, so that we can avoid major conflicts and also be prepared if we have to address those conflicts.

CONTRIBUTIONS OF SECURITY ASSISTANCE TO FOREIGN POLICY & NATIONAL DEFENSE FY 1981 — FY 1984


TURKEY
SPAIN
GREECE
PAKISTAN
PORTUGAL
(NEW PROGRAM)
KOREA
LEBANON
TUNISIA
MOROCCO
ISRAEL
THAILAND
HONDURAS
NIGER
CHAD
EL SALVADOR
LIBERIA
EGYPT
COSTA RICA
E. CARIB
JORDAN
PANAMA
PHILIPPINES
COLOMBIA
MALAYSIA
ECUADOR
YEMEN
OMAN
PERU
SUDAN
INDONESIA
SOMALIA
KENYA
ZAIRE
BOTSWANA
SCALED TO FY84 FINANCING
PROGRAMS EXPANDED
DETERRENCE MAINTAINED; PEACE PRESERVED
POOR & ECONOMICALLY DISTRESSED ASSISTED
CONFLICTS MANAGED OR CONTAINED
U.S. ALLIANCE & U.S. FORCES ACCESS SECURED

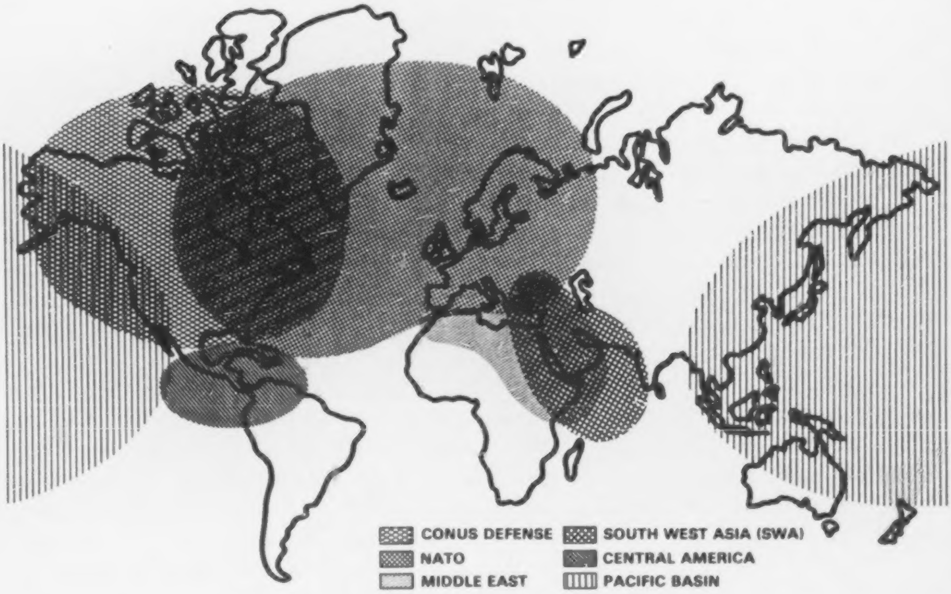
From now on, Mr. Chairman, my charts—and I have passed out paper copies for your records—will be scaled to financing in a relative way. In other words, the largest block reflects the entire program for security assistance. They are color coded and based on 1984 sizes here. The hatched marks indicate those countries for which the administration with the support of Congress has increased the programs in relative size from 1981 to 1984.

The chart recognizes where we and our friends and allies have maintained deterrence. For instance, peace has been preserved in Korea, with our assistance. We have also offset the Vietnamese threat, Jordan, and in the Middle East Israel as well as Egypt; and then, moving on to Pakistan, Turkey, Greece, and finally in Tunisia, Morocco.

And finally, it recognizes the importance of recognizing the economic needs of certain countries. Not all countries are reflected on this map. The map also shows those areas where we believe that security assistance has directly helped countries and ourselves to maintain deterrence and/or manage conflicts, as in Pakistan, Thailand, Morocco, and in Central America and Chad.

The green indicates where alliances are preserved and access for U.S. forces secured. The base-rights countries have already been mentioned by Dr. Schneider, but we have access to facilities as well throughout Southwest Asia and in Africa here.

STRATEGIC INTERSECTIONS


CONUS DEFENSE
NATO
MIDDLE EAST
SOUTH WEST ASIA (SWA)
CENTRAL AMERICA
PACIFIC BASIN

This chart attempts to describe the strategies as the Department of Defense, the Secretary of Defense, and the Joint Chiefs of Staff see them. We highlight here in yellow our own CONUS defense, which comes into a rather wide region; NATO, which is to our direct benefit, finally, moving here to Central America, which is right off our shores and intersects our own continental U.S. defense. Our interests here are strong, because many of our lines of communications go through this area.

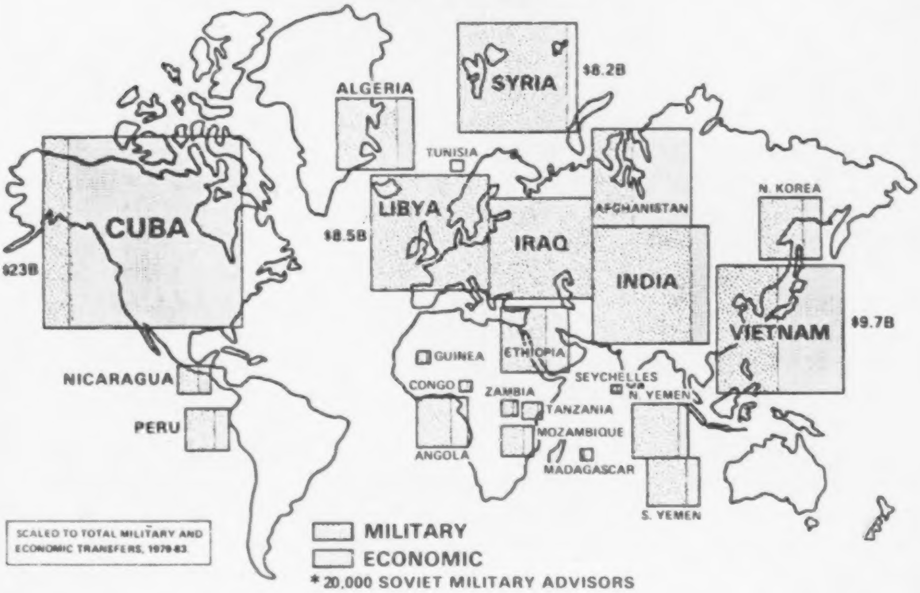
In the reinforcement of Europe or a Southwest Asia contingency, more than 60 percent of our resources would have to flow through the Mediterranean.

Finally, moving over again into the Pacific area, this wide area of responsibility is where we have a great deal of trade, also where we have a base rights country, but more importantly where we are concerned about the growing Soviet threat; the map also shows the Middle East, here shown in blue, as well as our Southwest Asia strategy.

This global responsibility of the United States must be shared with others, and it includes individual countries working to defend themselves, and to function also in a regional context. This certainly says that security assistance is a requirement to augment our own forces, to avoid having to interject our own forces unless absolutely necessary, and to maintain peace and stability so that democracy continues to grow in each one of these areas.

Wherever these strategies intersect, they become of more importance. We look particularly at the Middle East and Southwest Asia as well as NATO.

SOVIET MILITARY SALES/ASSISTANCE AND ECONOMIC ASSISTANCE *
(1979 — 1983)


ALGERIA
SYRIA
$8.2B
TUNISIA
LIBYA
$8.5B
AFGHANISTAN
N. KOREA
CUBA
$23B
IRAQ
INDIA
VIETNAM
$9.7B
GUINEA
ETHIOPIA
SEYCHELLES
N. YEMEN
NICARAGUA
CONGO
ZAMBIA
TANZANIA
PERU
MOZAMBIQUE
ANGOLA
MADAGASCAR
S. YEMEN
SCALED TO TOTAL MILITARY AND ECONOMIC TRANSFERS, 1979-83
MILITARY
ECONOMIC

* 20,000 SOVIET MILITARY ADVISORS

Now I will address how the Soviet Union does its security assistance. Here again, Mr. Chairman, these blocks are scaled to financing. The red shows the military portion of their assistance versus economic in green.

It is not all free money, but there are some things that are different than ours, in that they have a heavy dose of military assistance where it seems to meet the requirements, with very little economic, with the exception of Cuba here, where they have a great commitment to the Castro government and have provided a sizable amount of economic funds so as to support his government, and as well because they have troops stationed there.

These charts do not reflect totally the Soviet effort and what they are doing, but it does show the primary countries. And it is interesting to note that where the Soviets are involved and working to counter our interests in the free world, there is usually trouble involved in conflicts one way or another that is initiated very soon after they begin their program. One can track many of the problems of the world directly to this map.

The CHAIRMAN. General, what are the sources for these figures?

General GAST. They come from a total intelligence assessment and the best data that we could find for the period 1979 to 1983. It involves sales of military equipment as well as economic assistance, sir.

In fact, it continues to grow. I would point out that there are some 20,000 Soviet military advisors scattered around the world, including many in these countries that I am pointing to. Their population of Soviet advisors is more than ours around the world, which is another way of showing how differently they approach their version of security assistance.

There is another point to be made, that in their system they provide equipment, modern equipment, very rapidly, and they do it quickly and effectively. They do not train people to become self-sufficient, as we do. They require, by the way they handle their maintenance and training, that the countries remain reliant upon them.

PLANNING SECURITY ASSISTANCE PROGRAMS

- WITH THE COUNTRY
- COVERING 3-5 YEAR PERIOD
- APPROPRIATE TO COUNTRY NEEDS & THREAT
- TOTAL PACKAGES: ABSORBABLE & SUSTAINABLE
- INTEGRATED WITH ECONOMIC PLANNING
- SOLID BASIS FOR FINANCING REQUEST

I would like to speak to the committee regarding how we plan with the countries that we are speaking of. It is an annual process, where the Ambassador and his full country team come in to us with an assessment—the State Department and all of us share it—as to what they view the economic, military, social, and other requirements are for each country.

This is assessed within the entire interagency community before the President's budget is put together. In a growing number of countries, we are able to plan with the country directly, over a 3- to 5-year period, so as to assure that they are buying the things that are required to maintain their own defense and deterrence.

The programs in some countries involve very small and unsophisticated items, as opposed to Turkey, where we are attempting to assist them to modernize. We integrate not only economic and military planning, but also to assure that whatever they are purchasing will meet their needs, operate on a regional basis, and will be interoperable with our forces if that need be the case.

We strive to ensure that what they buy is appropriate to the country needs and their threat, that it is an absorbable and sustainable package. We do not believe that we should be providing countries things that they cannot use, but rather to provide things that they feel pleased and proud of and that their forces will be able to use.

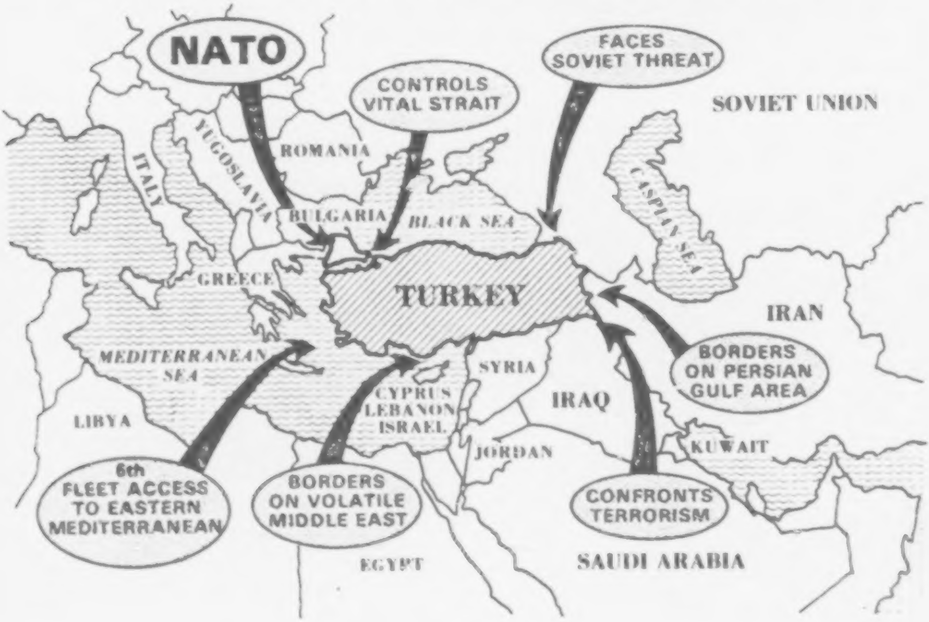
We believe this approach provides a solid basis for developing the President's request.

EL SALVADOR

ONE YEAR AGO:		TODAY:
UNCERTAINTY/INSTABILITY ELECTIONS AT RISK	— *POLITICAL* —	CONFIDENCE/STABILITY GROWING ELECTIONS HELD
RAPID DETERIORATION INFRASTRUCTURE IN SHAMBLES	— *ECONOMY* —	DECLINE HALTED INFRASTRUCTURE IMPROVING
CIVILIAN DEATHS HIGH HUMAN SERVICES DOWN	— *HUMAN RIGHTS/ EQUITY* —	CIVIL VIOLENCE DOWN HUMAN SERVICES IMPROVING
NATIONAL PLAN DEVELOPED FUNDING/SUPPLY SHORTFALLS	— *SECURITY* —	NATIONAL PLAN IMPLEMENTED FUNDING SHORTFALLS EASED

Now let me move to some particular countries. In El Salvador, here are statements covering the situations both 1 year ago and today. We believe that the Congress' decision to support the Duarte government was correct, that it has paid dividends in the region and for El Salvador and for the United States, that there no longer exists the uncertainty about the elections, that the decline of infrastructure has been halted, that civilian violence is down, and that the national plan is being implemented and the security forces there have, in fact been turned around to where the guerrillas are being met rather effectively out in the field.

TURKEY AT STRATEGIC CROSSROADS


NATO
CONTROLS VITAL STRAIT
FACES SOVIET THREAT
SOVIET UNION
ROMANIA
YUGOSLAVIA
ITALY
BULGARIA
BLACK SEA
CASPIAN SEA
GREECE
TURKEY
IRAN
MEDITERRANEAN SEA
SYRIA
CYPRUS
LEBANON
ISRAEL
IRAQ
BORDERS ON PERSIAN GULF AREA
LIBYA
JORDAN
KUWAIT
6th FLEET ACCESS TO EASTERN MEDITERRANEAN
BORDERS ON VOLATILE MIDDLE EAST
CONFRONTS TERRORISM
EGYPT
SAUDI ARABIA

I spoke of the Middle East, Southwest Asia, and NATO in the nexus of a great number of our strategies, three of them particularly. And I would highlight Turkey, not at the expense of Greece but because Turkey particularly sits astraddle of a very particularly important area where it is in support of NATO. It does control vital straits.

It faces a Soviet threat. It is a gateway in many ways to the Persian Gulf area and to the volatile Middle East, and, of course, confronts terrorism. The problem for Turkey is the growing obsolescence of its forces. We believe that the requirements are there for no less than $1 billion in order to turn that obsolescence around.

The support of Congress last year and the year before has begun to turn that around. But this year, in recognition of the budget and the deficit problem, we have constrained our request to $785 million.

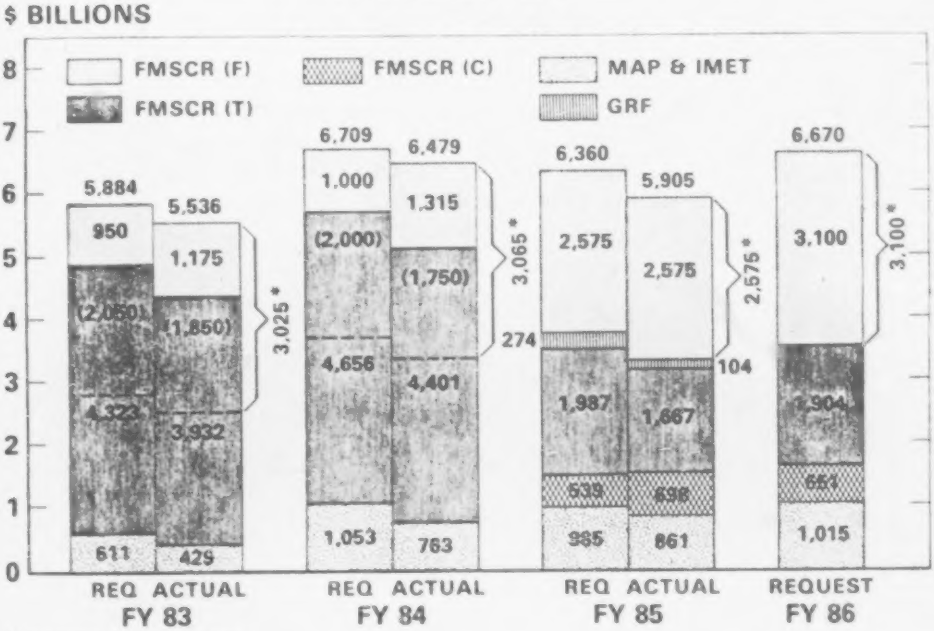
ISRAEL & EGYPT

- WE ARE STILL PURSUING THE GOALS OF CAMP DAVID
- WE UNDERSTAND THREATS AND SECURITY NEEDS
- WE PLAN TOGETHER
- WE RECOGNIZE THAT SECURITY REQUIRES STRONG ECONOMIES
- BUT PROGRAMS SHOULD NOT BE SUSTAINED AT THE EXPENSE OF THE REST OF THE WORLD

In the Middle East, Israel and Egypt are still pursuing the Camp David accords and the struggle toward a lasting peace. We are working with each of those countries, as I indicated. We have gained recognition and understanding of Israel's and Egypt's needs and have agreed with them upon the numbers that you see in the President's budget.

We have planned together. We recognize their security requirements and their need for strong economies. But we would point out that, though they are very important countries to regional peace and while we have a commitment to Israel, that increased funding should not be done at the expense of other countries.

MILITARY ASSISTANCE: FY 83—86
($ MILLIONS)



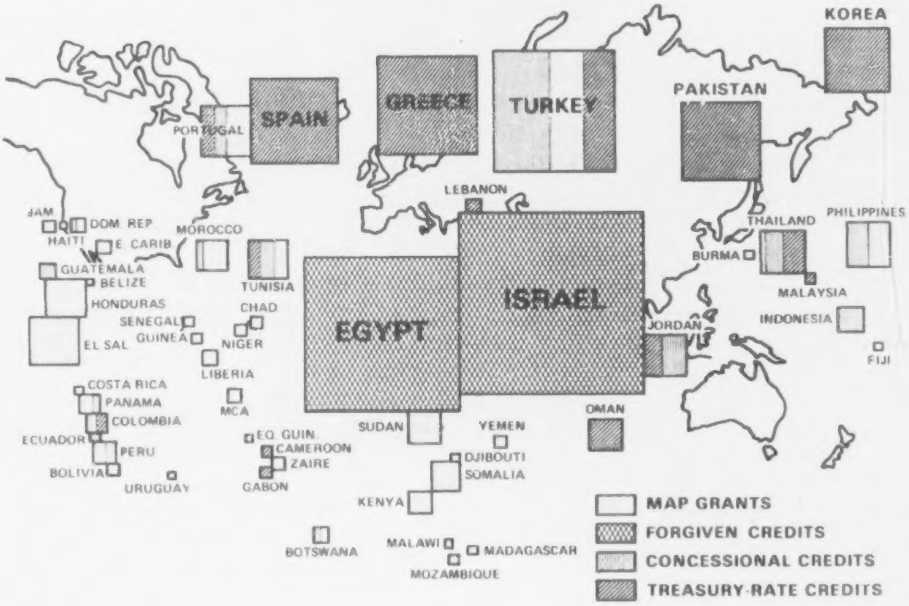
* EGYPT AND ISRAEL

This chart attempts to portray the President's budget in the left bar, for each year, and then what has been appropriated in the right bar. And it reflects in yellow the forgiven credits that have grown for Egypt and Israel. It reflects the green for the Treasury rate credits, and in orange the switch to concessional funds when we went on budget in fiscal year 1985. The MAP Program is shown in red. This program has grown in recognition of the problems the world economy and the problems of countries in facing that situation.

You will note that the aid for Egypt and Israel has been rather consistent, with a downturn slightly last year. It is now back up to where, as Dr. Schneider said, they compose some 46 percent of the military assistance request.

As you have noted, in the President's budget there is not a GRF request this year, but instead a request for a permanent and indefinite appropriation for the guarantee reserve fund.

FY 86 FMS/MAP FINANCING REQUEST
(SCALED TO FINANCING)


KOREA
PAKISTAN
SPAIN
GREECE
TURKEY
PORTUGAL
LEBANON
JAM
DOM. REP.
HAITI
E. CARIB
MOROCCO
GUATEMALA
BELIZE
HONDURAS
SENEGAL
GUINEA
EL SAL
TUNISIA
CHAD
NIGER
LIBERIA
COSTA RICA
PANAMA
COLOMBIA
ECUADOR
PERU
BOLIVIA
URUGUAY
MCA
EQ. GUIN.
CAMEROON
ZAIRE
GABON
EGYPT
ISRAEL
JORDAN
THAILAND
PHILIPPINES
BURMA
MALAYSIA
INDONESIA
FIJI
SUDAN
YEMEN
OMAN
DJIBOUTI
SOMALIA
KENYA
BOTSWANA
MALAWI
MADAGASCAR
MOZAMBIQUE
MAP GRANTS
FORGIVEN CREDITS
CONCESSIONAL CREDITS
TREASURY-RATE CREDITS

Looking again at a world map, this chart has to do with military assistance only. We have color coded this into forgiven credits for these two countries, Israel and Egypt, the MAP content for various countries here on a global basis, the concessional credit, how that would fit in, as well as the treasury rate.

The important thing to note here is this rather large size again in the Egypt-Israel equation, and also the sizable amount in the base rights countries and those countries that are on the front line, Pakistan, Korea, Thailand. And we take note of the Philippines and the problems there.

And one can see, if one includes Morocco and Tunisia, that there is 10 percent of the budget left for the important area of Africa, where there are minerals and people struggling for freedom and democracy that need assistance, and for Latin America. We have allocated about 5 percent for each of these important regions here after the other funding requirements are met.

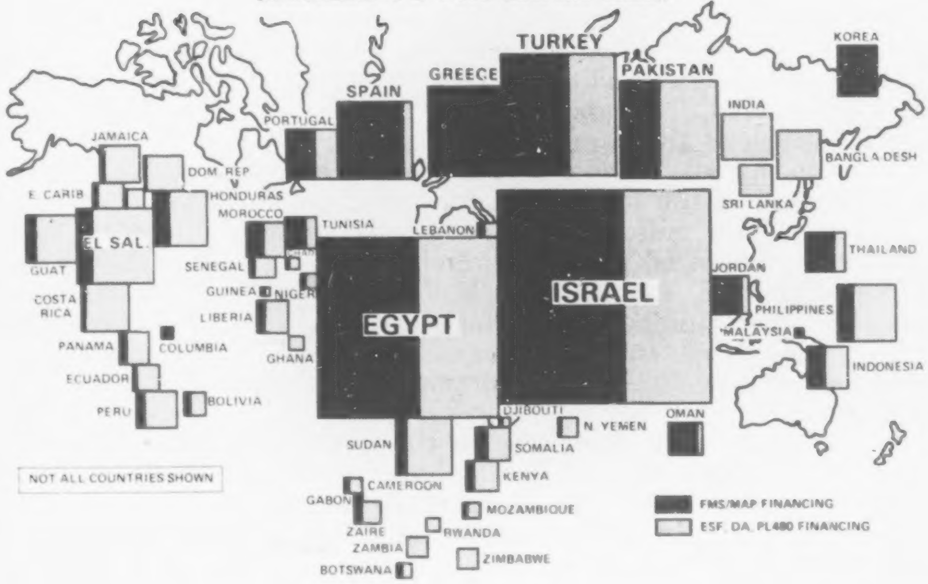
We believe that this program is balanced, that it takes into consideration the military requirements as well as the economic requirement.

It is interesting to note, here on the next chart, which again is scaled to financing, that if you include all of the economic assistance—Public Law 480, development assistance, as well as ESF which are shown in green around the globe, that the proportions are balanced in most areas. You note here the hatched area for Israel which reflects 1.2 billion for ESF if it were 1.2 for 1986. The relative size again of these two countries dominates the chart.

The military requirements to face the threat within NATO, as well as in the front line states here, are relatively heavy. It is about three to one military assistance over economic in this region.

But if one goes to Africa and into Central America, where the economies are in fact the thing that we are emphasizing, but with some military assistance, it is 4 to 1 in favor of economic, a switch in those particular areas. We believe the administration and the Congress in previous years has properly recognized the importance of economic as well as military assistance to meet our national objectives.

FY 86 REQUEST:
ECONOMIC & MILITARY PROGRAMS
(SCALED TO PROGRAM SIZE)


TURKEY
KOREA
GREECE
PAKISTAN
SPAIN
PORTUGAL
INDIA
JAMAICA
BANGLA DESH
DOM. REP.
HONDURAS
E. CARIB
MOROCCO
SRI LANKA
TUNISIA
LEBANON
EL SAL.
THAILAND
GUAT
SENEGAL
JORDAN
COSTA RICA
GUINEA
NIGER
ISRAEL
PHILIPPINES
LIBERIA
EGYPT
MALAYSIA
PANAMA
COLUMBIA
GHANA
INDONESIA
ECUADOR
PERU
BOLIVIA
DJIBOUTI
N. YEMEN
OMAN
SUDAN
SOMALIA
NOT ALL COUNTRIES SHOWN
KENYA
CAMEROON
GABON
MOZAMBIQUE
ZAIRE
RWANDA
ZAMBIA
ZIMBABWE
BOTSWANA
FMS/MAP FINANCING
ESF, DA, PL480 FINANCING

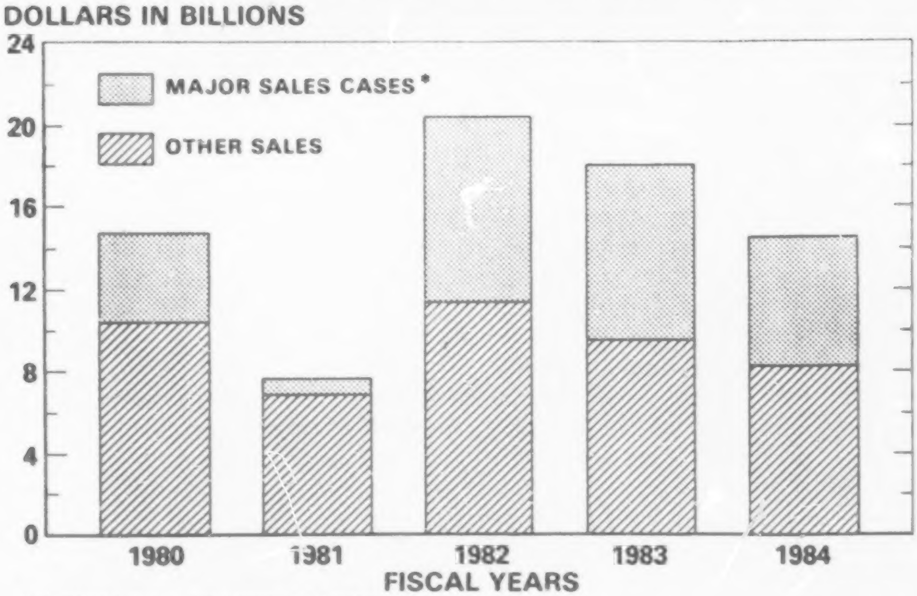
I would put in a pitch for an authorization bill this year. We believe it is needed, as Dr. Schneider indicated, to improve the management effectiveness of the moneys that are in fact appropriated.

LEGISLATION

- NEED AN AUTHORIZATION BILL
- H.R. 5119 PASSED BY THE HOUSE
- PREVIOUS LEGISLATIVE PROPOSALS STILL NEEDED; RESUBMITTED
- IMPORTANCE OF TRAINING PROPOSALS

FMS AGREEMENTS FY 1980—FY 1984

INFLATION NOT CONSIDERED



*USUALLY $ 1 BILLION OR MORE

There has been a worldwide reduction in foreign military sales. The chart does not reflect commercial sales, which are about $2 billion more. One can see that since 1982 there has been a gradual, but a significant, decline in the levels.

We anticipate the top number about evening out at $15 billion. Today the total sales are about $7 billion, halfway through the year. The red indicates major weapons systems cases, which are on the downturn, reflecting I think the fact that countries have begun to meet their legitimate defense requirements and also the turndown of their economies.

This, by the way, represents a general trend on a global basis.

The sale supporting systems and supplies have continued high. Countries are in fact modifying what they have, supporting what they have, rather than buying those major, expensive new programs.

Mr. Chairman, that completes my presentation. Attached also to what I have provided are those legislative initiatives which are in the program, which I will not go into, but which are broken into several categories that would improve the management of the program that has been appropriated in past years. It would also improve management for future years.

It also includes a heavy emphasis on training. We need to train people effectively to use the equipment that is provided, and also to have them come to the United States of America and understand our values. The initiatives cover various NATO matters as well.

Mr. Chairman, that completes my statement.

[General Gast's prepared statement follows:]

STATEMENT

BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE

LTG PHILIP C. GAST,

DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

20 MARCH 1985

INTRODUCTION

THANK YOU MR. CHAIRMAN.

SECRETARY SCHNEIDER HAS JUST PRESENTED TO THE COMMITTEE A COMPREHENSIVE REVIEW OF THE ADMINISTRATION'S REQUEST FOR THE FY 1986 SECURITY ASSISTANCE PROGRAM. WE IN THE DEFENSE DEPARTMENT FULLY SUPPORT THIS REQUEST AND BELIEVE IT REPRESENTS A BALANCED ECONOMIC AND MILITARY APPROACH TO ACHIEVING OUR NATIONAL GOALS. I WILL REVIEW THESE GOALS, THAT IS, WHAT DEFENSE BELIEVES ARE THE MAJOR STRATEGIC OBJECTIVES UNDERLYING THE SECURITY ASSISTANCE PROGRAM RECOMMENDATIONS. IN ADDITION, I WILL FOCUS ON THE LEGISLATIVE INITIATIVES THAT ARE BEING PROPOSED BY THE ADMINISTRATION THIS YEAR TO ALLOW US TO BETTER MANAGE THE SECURITY ASSISTANCE PROGRAM AND THE FUNDS AUTHORIZED BY THE CONGRESS.

IN HIS STATE OF THE UNION ADDRESS, THE PRESIDENT MADE THE POINT THAT, "DOLLAR-FOR-DOLLAR, SECURITY ASSISTANCE CONTRIBUTES AS MUCH TO GLOBAL SECURITY AS OUR OWN DEFENSE BUDGET."

THESE ASSISTANCE PROGRAMS YIELD MANY TANGIBLE AND INTANGIBLE BENEFITS TO THE U.S. AT COMPARATIVELY LITTLE COST TO THE AMERICAN TAXPAYER.

STRATEGIC OBJECTIVES

SECURITY ASSISTANCE CONTRIBUTES TO OUR FOREIGN POLICY AND DEFENSE OBJECTIVES IN A NUMBER OF WAYS, SOME OBVIOUS AND SOME LESS SO. OUR PROGRAMS ARE DEVELOPED FROM A HIERARCHY OF STRATEGIC CONSIDERATIONS. FIRST COME U.S. GLOBAL STRATEGIC OBJECTIVES. FROM THESE, WE DERIVE STRATEGIC OBJECTIVES APPROPRIATE TO EACH REGION IN WHICH WE HAVE MAJOR INTERESTS. THESE REGIONAL OBJECTIVES ARE WEIGHED TOGETHER WITH THE COUNTRY-SPECIFIC THREATS AND MILITARY REQUIREMENTS IN ORDER TO PLAN, WITH THE COUNTRY, THE ACTUAL DETAILS OF EACH COUNTRY'S ASSISTANCE PACKAGE.

AT THE SAME TIME, OUR PROGRAMS ACCOMPLISH THE SECOND OBJECTIVE OF ASSISTING FRIENDLY COUNTRIES IN THEIR NATIONAL DEVELOPMENT BY ENCOURAGING SELF-RELIANCE AND PROMOTING SELF-SUFFICIENCY THROUGH BETTER SELF-DEFENSE. WE PROVIDE CRITICAL MILITARY SKILLS TRAINING AND THE KEY TECHNOLOGIES THAT HELP FRIENDLY COUNTRIES MAKE BETTER USE OF THEIR OWN LIMITED RESOURCES IN DETERRING REGIONAL THREATS TO THEIR STABILITY OR COPING WITH INTERNAL THREATS THAT MAY BE INSPIRED OR SUPPORTED BY OUTSIDE FORCES. OUR SUPPLEMENTS TO THESE IN-COUNTRY EFFORTS MAKE THE DIFFERENCE BETWEEN REAL DEFENSE

SELF-SUFFICIENCY AND DESTABILIZING WEAKNESS. HENCE, OUR PROGRAMS HELP TO SIGNIFICANTLY REDUCE THE LIKELIHOOD THAT UNITED STATES FORCES WILL BE CALLED UPON TO INTERVENE ON THE BEHALF OF FRIENDLY OR ALLIED COUNTRIES, A MAJOR BENEFIT IN AND OF ITSELF. COINCIDENTALLY, THE REDUCED LIKELIHOOD OF HAVING TO INTERVENE WITH U.S. FORCES MEANS WE CAN AFFORD TO DIRECT OUR ATTENTION TO THE MOST PRESSING INTERNATIONAL SECURITY ISSUES WITH LESS CONCERN FOR BEING SPREAD TOO THIN IN THE THIRD WORLD.

THERE ARE TWO MORE WAYS IN WHICH SECURITY ASSISTANCE SUPPORTS U.S. FOREIGN POLICY AND GLOBAL STRATEGY. ONE IS THAT SECURITY ASSISTANCE CONTRIBUTES TO INCREASES IN U.S. ABILITY TO PROJECT POWER AND DEPLOY FORCES RAPIDLY AND RESPONSIVELY WHENEVER STRATEGIC REGIONS OR KEY ALLIES ARE THREATENED. BY PROVIDING ASSISTANCE TO THOSE COUNTRIES WHICH HAVE AGREED TO RETAIN U.S. BASES ON THEIR TERRITORY AND GRANT ACCESS TO MILITARY FACILITIES, WE NOT ONLY IMPROVE OUR CAPABILITY TO PROJECT FORCES FAR FROM OUR SHORES BUT WE ARE BETTER ABLE TO SUSTAIN THOSE FORCES THROUGH THE USE OF AIR AND PORT FACILITIES. FURTHERMORE, WE GAIN THE ADDITIONAL FORCE MULTIPLICATION THAT COMES THROUGH INCREASED STANDARDIZATION AND INTEROPERABILITY.

IN ADDITION TO ENHANCING POWER PROJECTION, SECURITY ASSISTANCE HAS BECOME AN INCREASINGLY IMPORTANT INDUCEMENT IN PROMOTING PEACEFUL

SOLUTIONS TO LONGSTANDING AND POTENTIALLY EXPLOSIVE DISPUTES, MOST NOTABLY IN THE MIDDLE EAST.

WITHOUT SECURITY ASSISTANCE, WE WOULD NOT BE ABLE TO IMPLEMENT REGIONAL STRATEGIES INVOLVING FRIENDLY COUNTRIES AND ALLIES. FURTHER, AS YOU REVIEW OUR PROGRAM, I URGE YOU TO KEEP IN MIND THAT OUR COUNTRY FUNDING PROPOSALS TEND TO SUPPORT SEVERAL DIFFERENT STRATEGIC GOALS SIMULTANEOUSLY, BECAUSE REGIONAL STRATEGIES INEVITABLY INTERSECT AND OVERLAP. CLEARLY, SECURITY ASSISTANCE IS INSTRUMENTAL IN SHAPING OUR FOREIGN POLICY AND IS MAKING A DIRECT CONTRIBUTION TO OUR NATIONAL DEFENSE AT REMARKABLY LOW COST.

CRITICAL COUNTRIES

SECRETARY SCHNEIDER HAS REVIEWED, REGION-BY-REGION, THE PROGRAMS WE PROPOSE IN THIS BUDGET REQUEST. I WOULD LIKE TO ADDRESS WHAT WE BELIEVE ARE THE MOST CRITICAL COUNTRY PROGRAM REQUESTS FOR FY 1986 AND WHY WE HOLD THESE PRIORITIES.

EL SALVADOR. IN LITTLE MORE THAN ONE YEAR, THE SALVADORAN ARMED FORCES HAVE DEMONSTRATED REMARKABLE IMPROVEMENTS IN PROFESSIONALISM AND MORALE, THE POLITICAL SITUATION HAS STABILIZED, THE SHARP DECLINE OF THE ECONOMY HAS SLOWED AND THE INCIDENCE OF CIVIL VIOLENCE HAS BEEN REDUCED. THESE RESULTS HAVE BEEN ENCOURAGING AND ARE ATTRIBUTABLE, IN PART, TO THE ELECTION OF PRESIDENT DUARTE AND TO THE SECURITY ASSISTANCE FUNDING APPROVED

FOR THE PAST TWO FISCAL YEARS. PRESIDENT DUARTE HAS DONE MUCH TO RESTORE CONFIDENCE IN THE GOVERNMENT AND INSTITUTIONS OF EL SALVADOR, AND IT IS CLEAR THAT YOUR DECISION TO SUPPORT DUARTE WAS CORRECT. THE PAST FUNDING LEVELS HAVE PROVIDED THE NECESSARY TRAINING, EQUIPMENT AND MOTIVATION FOR THE ARMED FORCES. THE LEVELS THE CONGRESS APPROVED FOR BOTH FY 1984 AND FY 1985 CONTRIBUTED GREATLY TOWARD MEETING THE NEED FOR THE "GREATER CONTINUITY AND PREDICTABILITY" CALLED FOR IN THE NATIONAL BIPARTISAN COMMISSION REPORT ON CENTRAL AMERICA.

CONTINUED MILITARY ASSISTANCE AT THE PROPOSED $132.6 MILLION FOR FY 1986 IS NECESSARY TO SUSTAIN CURRENT OPERATIONS AND TO PRESERVE AND EXPAND THE SECURITY SHIELD SO THAT ECONOMIC GROWTH AND DEMOCRATIC PRACTICES CAN TAKE HOLD. THE HIGH PRIORITY MILITARY FUNDING AREAS WILL CONTINUE TO BE TRAINING, SUSTAINABILITY (AMMUNITION, SUPPLIES, SPARES), COMMUNICATIONS, INFRASTRUCTURE, NIGHT SIGHT DEVICES, FIRE SUPPORT AND TACTICAL MOBILITY.

TURKEY. ANOTHER HIGH PRIORITY IS THE CONTINUATION OF OUR SUPPORT FOR THE MODERNIZATION OF THE TURKISH ARMED FORCES. TURKEY'S CRITICAL STRATEGIC LOCATION PLACES IT AT THE NEXUS OF OUR SECURITY INTERESTS IN NATO, THE MIDDLE EAST AND SOUTHWEST ASIA. THE FUNDS WE ARE REQUESTING ARE URGENTLY NEEDED TO HELP REMEDY THE GROWING OBSOLESCENCE OF ITS MILITARY EQUIPMENT AND TO HELP MEET ITS AGREED-TO NATO FORCE GOALS ON THE SOUTHEAST FLANK.

EXISTING PLANS HAVE IDENTIFIED WELL OVER $1.0 BILLION IN CRITICAL FUNDING NEEDS FOR TURKISH ARMED FORCES MODERNIZATION. BUT WE ARE ONLY REQUESTING $785 MILLION IN FMS CREDITS AND MAP GRANTS FOR FY 1986 TO HOLD DOWN THE OVERALL FUNDING REQUEST.

THE CONGRESS HAS RECOGNIZED TURKEY'S KEY ROLE IN NATO AND THE CRITICAL NATURE OF ITS MILITARY REQUIREMENTS BY PROVIDING SIGNIFICANT AND INCREASING SECURITY ASSISTANCE FUNDING. TOGETHER WE HAVE ACHIEVED SOME MOMENTUM TOWARD HELPING TURKEY BEGIN TO UPGRADE ITS KOREAN WAR VINTAGE TANKS, MODERNIZE ITS NAVY, AND BEGIN A MODERN FIGHTER AIRCRAFT PROGRAM. WE NEED TO CONTINUE TO SUPPORT THIS MOMENTUM AS WELL AS TO PROVIDE THE STABILITY NEEDED TO PRESERVE THE DEMOCRATIC POLITICAL PROCESS IN TURKEY.

ISRAEL AND EGYPT. THE PURSUIT OF PEACE IN THE MIDDLE EAST IS STILL ONE OF THE HIGHEST PRIORITIES. OUR CONTINUING MILITARY ASSISTANCE PROGRAMS WITH ISRAEL AND EGYPT REFLECT THIS ENDEAVOR. THEIR STRONG SENSE OF SECURITY IS THE FOUNDATION FOR ANY PROGRESS IN THE PEACE PROCESS. WE HAVE CLOSE DIALOGUES WITH BOTH COUNTRIES CONCERNING THE THREATS TO THEIR EXISTENCE AND THE MODERNIZATION NEEDS OF THEIR FORCES.

WE ARE RECOMMENDING INCREASES IN BOTH THE ISRAELI AND EGYPTIAN CREDIT PROGRAMS TO $1.8 BILLION AND $1.3 BILLION, RESPECTIVELY, AND ALL ON FORGIVEN TERMS. THE ISRAELI LEVEL HAS BEEN WORKED OUT WITH THE GOVERNMENT OF ISRAEL AFTER LENGTHY DISCUSSIONS, AND THAT GOVERNMENT

HAS AGREED TO THESE LEVELS. A SEPARATE ECONOMIC PACKAGE FOR ISRAEL WILL BE SENT TO THE CONGRESS AS SOON AS THE FINAL DETAILS ARE WORKED OUT. THE LEVEL WE PROPOSE FOR EGYPT SUPPORTS THE MULTI-YEAR PROGRAM WE HAVE BEEN PLANNING WITH THE EGYPTIANS, A PROGRAM THAT INCLUDES ONLY LIMITED MODERNIZATION.

THE PROPOSED MILITARY ASSISTANCE REQUEST FOR ISRAEL AND EGYPT CONSTITUTES ABOUT 46% OF THE MILITARY ASSISTANCE ACCOUNTS. WE DO NOT BELIEVE THAT INCREASES FOR THESE TWO COUNTRIES OUGHT TO BE MADE AT THE EXPENSE OF OTHER RECIPIENT COUNTRIES WHICH HAVE PROGRAMS THAT ARE SMALLER, BUT HAVE EQUIVALENT STRATEGIC IMPORTANCE.

ASIAN ALLIES. THERE ARE TWO OTHER CRITICAL COUNTRIES FACING MENACING SECURITY THREATS-THAILAND AND THE PHILIPPINES. THAILAND FACES AN IMMINENT THREAT FROM VIETNAMESE OCCUPATION FORCES IN CAMBODIA WHICH HAVE NOT ONLY LAUNCHED MASSIVE ATTACKS AGAINST CAMBODIAN RESISTANCE FORCES ON THAI-CAMBODIA BORDER, BUT ALSO VIOLATED THAI SOVEREIGNTY BY INCURSIONS INTO THAILAND. OUR TREATY ALLY, THAILAND, NEEDS OUR SECURITY ASSISTANCE TO MEET THIS THREAT THROUGH MODERNIZATION OF ITS ARMED FORCES AND OTHER MILITARY SUPPORT.

THE MEMBERS OF THIS COMMITTEE KNOW WELL THE CRITICAL IMPORTANCE OF THE PHILIPPINES TO OUR GLOBAL DEFENSE POSTURE. OUR UNHAMPERED ACCESS TO THE AIR AND NAVAL FACILITIES AT PHILIPPINE BASES IS ESSENTIAL TO OUR STRATEGY OF FORWARD DEPLOYED FORCES IN THE PACIFIC AND INDIAN OCEANS. BUT YOU ARE UNDOUBTEDLY AWARE THAT THE PHILIPPINES

TODAY FACES ITS MOST SERIOUS POLITICAL, ECONOMIC, AND MILITARY CHALLENGES SINCE WORLD WAR II. A DETERIORATING ECONOMY AND UNSTABLE POLITICAL CONDITIONS HAVE FUELED A RAPIDLY EXPANDING COMMUNIST INSURGENCY. IN THE PHILIPPINE ARMED FORCES, RESOURCE AND LEADERSHIP PROBLEMS HAVE THWARTED PROGRESS IN THE COUNTERINSURGENCY EFFORT. WE BELIEVE THE PHILIPPINES GOVERNMENT NOW RECOGNIZES, HOWEVER, THAT REFORMS ARE URGENTLY NEEDED TO RESTORE DEMOCRATIC INSTITUTIONS, REVITALIZE THE ECONOMY, AND REDUCE DOMESTIC VIOLENCE.

THE ARMED FORCES OF THE PHILIPPINES BENEFIT FROM A SOLID CADRE OF LEGAL, PROFESSIONAL OFFICERS CAPABLE OF CORRECTING INTERNAL PROBLEMS AND AGGRESSIVELY PURSUING A SUCCESSFUL COUNTERINSURGENCY STRATEGY. THE TIME HAS COME TO SIGNAL OUR SUPPORT FOR THE ENCOURAGING AND POSITIVE EFFORTS UNDERTAKEN THUS FAR. WE ALL ARE ANXIOUS TO SEE CONSTRUCTIVE CHANGE IN THE PHILIPPINES AND WE ALL KNOW THAT IT IS INCUMBENT ON US TO ACT IN OUR OWN INTERESTS SO THAT THE PHILIPPINES WILL BE ENCOURAGED TO RESOLVE ITS SERIOUS PROBLEMS. OUR FY 1986 SECURITY ASSISTANCE REQUEST REPRESENTS OUR BEST OPPORTUNITY TO FOSTER CONSTRUCTIVE CHANGE. NOT ONLY SHOULD IT HELP EASE THE FINANCIAL BURDEN ON THE PHILIPPINE ECONOMY, BUT IT ALSO SHOULD PROVIDE AN INCENTIVE FOR THE IMPLEMENTATION OF MILITARY RESTRUCTURING AND SUPPORT THE COUNTERINSURGENCY EFFORT THAT HAS BEGUN.

THE FY 1986 REQUEST

THE FY 1986 SECURITY ASSISTANCE REQUEST CONTINUES PREVIOUS YEAR PROGRAMS WITH NO MAJOR COUNTRY INCREASES, APART FROM ISRAEL AND EGYPT. WE HAVE REQUESTED THAT THE FY 1986 SECURITY ASSISTANCE REQUEST BE ON-BUDGET AGAIN. THIS ALLOWS THE U.S. TO TAILOR THE COUNTRY PROGRAMS TO MILITARY REQUIREMENTS AND ECONOMIC NEEDS THROUGH A MIX OF TREASURY RATE LOANS, CONCESSIONAL CREDITS AND/OR MAP GRANTS. THE PROVISION OF CONCESSIONAL LOANS AND GRANTS IS ONE IMPORTANT WAY IN WHICH WE CONTINUE TO ADDRESS U.S. FOREIGN POLICY OBJECTIVES WHILE TAKING INTO CONSIDERATION THE THIRD WORLD DEBT PROBLEM AND THE GLOBAL ECONOMIC GROWTH RATES.

ALTHOUGH FMS/MAP FINANCING IS FOCUSED ON ISRAEL AND EGYPT AND, TO A LESSER DEGREE, ON OUR ALLIES IN THE SOUTHERN TIER OF NATO, WE BELIEVE THAT THE FY 1986 REQUEST REPRESENTS A JUDICIOUS MIX OF MILITARY AND ECONOMIC FINANCING OF ALL PROGRAMS. COUNTRY-BY-COUNTRY, OUR PROGRAMS ARE WELL-BALANCED BETWEEN MILITARY AND ECONOMIC AID AND WITH MOST OF THE LESS PROSPEROUS COUNTRIES RECEIVING A MUCH HIGHER PROPORTION OF ECONOMIC THAN MILITARY ASSISTANCE, ESPECIALLY IN LATIN AMERICA AND AFRICA. THOSE COUNTRIES WHICH HAVE ALL OR MOSTLY MILITARY FINANCING, SUCH AS SPAIN, GREECE, KOREA AND THAILAND, ARE MORE PROSPEROUS, BUT NONETHELESS, OF HIGH STRATEGIC IMPORTANCE. THEIR LOANS ARE MOSTLY AT NEAR-MARKET INTEREST RATES.

PROGRAM CONTINUITY

INTERNATIONALLY, OUR SECURITY ASSISTANCE PROGRAM HAS BEEN ONE OF THE MOST IMPORTANT POLICY VEHICLES FOR GENERATING CONSTRUCTIVE CHANGE. THE CLOSE COOPERATION BETWEEN THE EXECUTIVE AND LEGISLATIVE BRANCHES AND THE SUPPORT OF THIS COMMITTEE AND THE CONGRESS AS A WHOLE HAS CONTRIBUTED SIGNIFICANTLY TO IMPROVING THE PROGRAM. BUT NOW IT IS TIME TO STEP BACK, REVIEW THE DETAILS OF LEGISLATION AND DETERMINE HOW TO PROMOTE MORE EFFECTIVE AND EFFICIENT MANAGEMENT OF THE PROGRAM. WE WANT TO WORK CLOSELY WITH YOU IN REFINING THE DETAILS OF IMPROVED PROGRAM MANAGEMENT.

PROGRAM PLANNING AND MANAGEMENT

IN THE BROADEST SENSE, OUR SECURITY ASSISTANCE PLANNING SUPPORTS BASIC U.S. FOREIGN POLICY GOALS BY TAKING INTO ACCOUNT THE WELL-KNOWN INTERDEPENDENCE BETWEEN PHYSICAL AND ECONOMIC SECURITY. POLITICAL STABILITY IS AS THREATENED BY ECONOMIC INSTABILITY AS IT IS BY EXTERNALLY INSPIRED POLITICAL DESTABILIZATION. WHEN POLITICAL STABILITY IS THREATENED, DEMOCRATIC INSTITUTIONS AND VALUES ARE ALSO THREATENED. CONSEQUENTLY, SECURITY ASSISTANCE PLANNING PLACES AS MUCH EMPHASIS ON THE BALANCE BETWEEN ECONOMIC AND MILITARY ASSISTANCE AND THE IMPACT OF FUTURE DEBT BURDENS AS IT DOES ON THE EFFECT OF FORCE STRUCTURE MODERNIZATION IN DETERRING THREATS. MOREOVER, WE USE THE THE METICULOUSNESS OF THE PLANNING PROCESS AND THE

EXPERIENCE OF OUR SECURITY ASSISTANCE STAFFS TO ENSURE THAT OUR COUNTRY PROPOSALS DO NOT CONTAIN UNNECESSARY EXTRAS AND ARE TAILORED TO FULFILL THOROUGHLY-REVIEWED COUNTRY REQUIREMENTS.

IN THE COURSE OF PURSUING OUR OBJECTIVES IN OUR RELATIONSHIPS WITH COUNTRIES WITH WHOM WE HAVE SECURITY ASSISTANCE PROGRAMS, ESPECIALLY THOSE WHERE WE PROVIDE FINANCING, WE WORK DILIGENTLY WITH THE COUNTRY TO ENSURE THAT THEY BUY WHAT THEY NEED, THAT IT CAN BE EFFECTIVELY OPERATED AND MAINTAINED WITHIN THEIR RESOURCES AND SKILLS, THAT IT CONTRIBUTES SIGNIFICANTLY TO THEIR DEFENSE, AND MAKES A CONTRIBUTION TO COALITION DEFENSE WHERE POSSIBLE. OUR EMBASSIES, SECURITY ASSISTANCE OFFICES, UNIFIED COMMAND STAFFS AND WASHINGTON AGENCIES ARE ALL DEEPLY ENGAGED IN THIS PROCESS. WE WORK WITH COUNTRIES TO ENSURE THEY RECOGNIZE THE NEED FOR BALANCED PROGRAMS APPROPRIATE TO THE THREATS THEY FACE, PROGRAMS THAT INCLUDE THE TRAINING AND LOGISTICS SUPPORT THEY NEED TO MAKE AND KEEP THEIR FORCES EFFECTIVE. OUR EXPERIENCE HAS SHOWN THAT MOST COUNTRIES DO NOT MAKE EXORBITANT REQUESTS OR UNREASONABLE DEMANDS ON THE U.S. THEY ARE SENSITIVE TO THEIR ABILITY TO ABSORB NEW EQUIPMENT. ALMOST ALL ARE AWARE OF THEIR FINANCIAL LIMITATIONS.

CONSIDERABLE PLANNING IS DEVOTED TO INTEGRATING SECURITY ASSISTANCE WITH ECONOMIC DEVELOPMENT AND OTHER PROGRAMS BY TAILORING APPROPRIATE LEVELS TO SPECIFIC COUNTRY REQUIREMENTS. WE HAVE MADE GREAT STRIDES IN REDUCING THE FUTURE REPAYMENT

BURDENS OF THE POORER COUNTRIES. OUR MILITARY FINANCING ASSISTANCE IS ONLY A SMALL PORTION OF THE TOTAL DEBT BURDENS FOR MOST OF THESE COUNTRIES EXCEPT PERHAPS ISRAEL AND EGYPT. WE OFTEN CONDUCT PERIODIC PROGRAM REVIEWS, MEETING ALTERNATELY IN THE COUNTRY AND IN THE U.S. WE HAVE INCREASED AND INTENSIFIED THESE PLANNING EFFORTS WITH CRITICAL COUNTRIES OVER THE LAST TWO OR THREE YEARS, AND BELIEVE THAT THE FINANCING PROGRAMS WE HAVE PRESENTED IN THE FY 1986 BUDGET REQUEST ARE FIRMLY GROUNDED IN SENSIBLE MILITARY PROGRAMS.

GREAT CARE HAS BEEN TAKEN TO INTEGRATE ECONOMIC, DEVELOPMENTAL AND MILITARY ASSISTANCE IN DEVELOPING THE OVERALL COUNTRY PROGRAM REQUESTS. WE FIND THAT MOST COUNTRIES UTILIZE THEIR MILITARY ASSISTANCE FINANCING PRIMARILY TO SUPPORT EXISTING SYSTEMS, FOR OPERATION AND MAINTENANCE REQUIREMENTS, INFRASTRUCTURE IMPROVEMENTS OR FOR TRAINING, WITH VERY LIMITED MODERNIZATION OF EQUIPMENT. FUNDING FOR IMPROVED MILITARY HOUSING, FOR UNIFORMS OR OTHER PERSONAL GEAR, OR FOR TRAINING, MAY DO MUCH TO PROFESSIONALIZE A NATIONAL MILITARY FORCE. IN OTHER CASES, OUR FINANCING IS INTENDED TO CONTRIBUTE TO INFRASTRUCTURE IMPROVEMENT THROUGH CIVIC ACTION PROGRAMS SUCH AS THOSE IN AFRICA.

LEGISLATIVE INITIATIVES

NOW I'D LIKE TO DISCUSS SOME OF THE CHANGES IN LEGISLATION BEING PROPOSED IN THE FY 1986 BILL. A NUMBER OF THESE INITIATIVES

HAVE BEEN SUBMITTED IN THE PAST BUT, BECAUSE THERE WERE NO AUTHORIZATION ACTS, WE FAILED TO GET FINAL ACTION. THE LAST AUTHORIZATION ACT WAS IN 1981, BUT WE NEED NEW AUTHORIZING LEGISLATION TO STREAMLINE SECURITY ASSISTANCE MANAGEMENT AND TO TAKE USEFUL MEASURES TO STRENGTHEN OUR TRAINING BONDS WITH OTHER COUNTRIES. LET ME CALL ATTENTION TO THE INITIATIVES BEING RESUBMITTED AS WELL AS OUR NEW INITIATIVES. THE INITIATIVES HAVE BEEN BROKEN INTO GENERAL CATEGORIES SUCH AS TRAINING AND BETTER PROGRAM MANAGEMENT.

TRAINING

THERE ARE SEVERAL TRAINING PROPOSALS IN THE LEGISLATION. WE HAVE RESUBMITTED OUR INITIATIVE FOR RECIPROCAL ONE-FOR-ONE MILITARY EXCHANGES BETWEEN OUR SENIOR AND INTERMEDIATE MILITARY SCHOOLS AND EQUIVALENT SCHOOLS IN OTHER COUNTRIES. PROFESSIONAL MILITARY EDUCATION (PME) EXCHANGES ENABLE U.S. OFFICERS TO GAIN EXPERIENCE AND KNOWLEDGE OF DIFFERING ENVIRONMENTS, WHILE BUILDING RELATIONSHIPS WITH FUTURE FOREIGN LEADERS. LIKEWISE, SENIOR FOREIGN OFFICERS COMING TO THE U.S. BENEFIT FROM THEIR EXPOSURE TO U.S. MILITARY EDUCATION AND TO OUR FUTURE LEADERSHIP. HOWEVER, AS IT STANDS NOW, WE CANNOT RECIPROCATE THE FREE TUITION OFFERED BY OTHER GOVERNMENTS. THE EXCHANGES WOULD REQUIRE NO FINANCIAL CHARGES, NEW COSTS OR APPROPRIATIONS SINCE THEY WOULD BE CONDUCTED ON A ONE-FOR-ONE REIMBURSEMENT-IN-KIND BASIS.

ANOTHER LEGISLATIVE CHANGE SEEKS AUTHORITY TO PERMIT TRAINING IN MARITIME SKILLS. ORIGINALLY INTRODUCED BY THE CONGRESS ITSELF, THIS PROPOSAL WOULD PERMIT THE COAST GUARD TO PROVIDE A MORE COMPREHENSIVE TRAINING PROGRAM AND FACILITATE COORDINATION WITH VARIOUS MARITIME-RELATED UNITS WITHIN OTHER COUNTRIES. FOR EXAMPLE, MARITIME LAW ENFORCEMENT FOR OFFSHORE FISHERIES SURVEILLANCE IS FUNDAMENTAL TO THE WEST AFRICAN COASTAL SURVEILLANCE INITIATIVE. IT WOULD ALLOW THE USE OF GRANT MONIES TO PROVIDE EDUCATION AND TRAINING IN MARITIME SEARCH AND RESCUE, OPERATIONS AND MAINTENANCE OF NAVAIDS, PORT SECURITY, AT-SEA LAW ENFORCEMENT, INTERNATIONAL LAW, AND GENERAL MARITIME SKILLS.

THE LEGISLATIVE INITIATIVE TO EXEMPT MILITARY SALARIES FROM MAP-FUNDED FMS TRAINING AND SERVICES COSTS WOULD PERMIT COUNTRIES TO STRETCH THEIR DOLLARS AND TRAIN MORE STUDENTS. BY PROVIDING MAP TO ANY COUNTRY, A POLITICAL AND ECONOMIC DETERMINATION OF NEED HAS ALREADY BEEN ESTABLISHED. CHARGING U.S. MILITARY SALARIES TO THE MAP RECIPIENT APPEARS INCONSISTENT WITH THE DETERMINATION OF NEED. THIS INITIATIVE NOT ONLY ASSISTS GRANT AID COUNTRIES IN GETTING THE MOST FOR THEIR MAP TRAINING MONEY, IT ALSO REDUCES THE COST OF SOME SERVICES SUCH AS MOBILE TRAINING AND TECHNICAL ASSISTANCE TEAMS.

ANOTHER PROPOSAL FOCUSES ON REPROGRAMMING NOTICES TO CONGRESS FOR THE IMET PROGRAM. RAISING THE THRESHOLD FOR CONGRESSIONAL NOTIFICATION TO $25 THOUSAND WOULD ELIMINATE NUMEROUS TIME-CONSUMING NOTIFICATIONS FOR ACCOUNTING AND COSTING ADJUSTMENTS;

PERMIT PROMPT RESPONSE AND REPROGRAMMING EXECUTION OF SMALL, YET IMPORTANT TRAINING PROGRAMS; AND PERMIT MORE EFFICIENT USE OF FUNDS BY ALLOWING DISCRETIONARY REALLOCATION OF YEAR-END SAVINGS WHEN CONGRESS IS IN RECESS. THE INITIATIVE ONLY REDUCES THE NUMBER OF NOTIFICATIONS NOW REQUIRED SOLELY FOR PROGRAM INCREASES OF LESS THAN $25 THOUSAND; IT STILL RETAINS NEW COUNTRY PROGRAM NOTIFICATIONS OF ANY AMOUNT.

THE FINAL TRAINING PROPOSAL I WANT TO TALK ABOUT IS AN EXEMPTION OF IMET FROM THOSE TYPES OF ASSISTANCE PROHIBITED BY THE SYMINGTON-GLENN PROVISIONS. DENYING FOREIGN RECIPIENTS' ELIGIBILITY FOR THE RELATIVELY SMALL BUT HIGHLY EFFECTIVE IMET PROGRAM STIFLES EFFORTS TO ESTABLISH CLOSE MILITARY-TO-MILITARY TIES. OUR PROPOSED EXEMPTION OF IMET WOULD ALLOW THE PROVISION OF IMET GRANT AID TRAINING - CONSISTENT WITH INTERNATIONAL HUMAN RIGHTS AND EXCLUDING POLICE TRAINING - IN ORDER TO MAINTAIN MILITARY-TO-MILITARY DIALOGUES.

WE FEEL THAT THIS PACKAGE OF TRAINING INITIATIVES, TOGETHER WITH OUR REQUEST FOR AN INCREASE IN IMET, SERVES TO CEMENT OUR RELATIONSHIP WITH COUNTRIES WHERE OUR PRIMARY MILITARY ASSISTANCE IS TRAINING.

MANAGEMENT

ALL OF OUR PROPOSALS ARE AIMED AT MAKING THE OPERATION OF THE SECURITY ASSISTANCE PROGRAM MORE EFFECTIVE AND EFFICIENT. THE

INITIATIVES GROUPED WITHIN THE MANAGEMENT CATEGORY ARE OFTEN DESIGNED TO PROMOTE A MORE EFFICIENT AND EFFECTIVE PROGRAM BY ELIMINATING OR MINIMIZING, AT LEAST, THE ELABORATE AND SOMETIMES UNNECESSARY PROCEDURES INVOLVED IN IMPLEMENTING THE PROGRAM.

ONE PROPOSAL WOULD AMEND SECTION 515 OF THE FOREIGN ASSISTANCE ACT (FAA) TO INCREASE THE NUMBER OF SECURITY ASSISTANCE ORGANIZATIONS (SAOS) ABROAD AUTHORIZED MORE THAN SIX UNIFORMED PERSONNEL. THERE ARE CURRENTLY 12 COUNTRIES, UNDER LAW, WHERE WE HAVE MORE THAN SIX AUTHORIZED MILITARY PERSONNEL IN THE SAO VICE MORE THAN 30 A FEW YEARS AGO. WE ARE REQUESTING THIS AUTHORITY FOR TUNISIA, PAKISTAN, SUDAN, HONDURAS, EL SALVADOR AND VENEZUELA. WE HAVE ALREADY INCREASED TOTAL MILITARY PERSONNEL STRENGTH BY A TOTAL OF 21 IN FIVE OF THE SIX, FOLLOWING THE APPROPRIATE INTERIM 30-DAY NOTIFICATION TO CONGRESS. ONE MORE IS PROPOSED FOR SUDAN. OUR REQUEST IS ONLY FOR THOSE COUNTRIES WITH THE MOST URGENT PROGRAM MANAGEMENT REQUIREMENTS DUE TO EXPANDING FMS PROGRAMS AND THE HOST GOVERNMENT'S NEED TO ASSIMILATE U.S. EQUIPMENT AND SUPPORT FUNCTIONS. WORLDWIDE, OUR OVERSEAS MILITARY STRENGTH IN SAOS DECREASES BY TEN FROM FY 1985 OR NEARLY TWO PERCENT, AND THIS DECREASE COMES AFTER THE MINOR INCREASES DISCUSSED ABOVE.

CONCOMITANTLY, WE ARE RESUBMITTING OUR INITIATIVE FOR AUTHORIZATION TO USE FMS ADMINISTRATIVE FUNDS TO AUGMENT MAP FUNDS FOR REPRESENTATIONAL ACTIVITIES. DESPITE RISING COSTS AND THE INCREASED VISIBILITY OF OUR SECURITY ASSISTANCE PROGRAMS, REPRESENTATIONAL FUNDS HAVE BEEN DECLINING IN REAL TERMS. THE LEVELS HAVE BEEN HELD CONSTANT FOR THE PAST FEW YEARS AND THE AMOUNT PROVIDED DOES NOT COVER THE EXPENSES INCURRED BY OUR PEOPLE ABROAD. SINCE THIS PROPOSAL WOULD BE FUNDED FROM THE FMS SURCHARGE PROCEEDS, IT WOULD NOT REQUIRE BUDGET OUTLAYS.

ANOTHER PROPOSAL DESIGNED TO IMPROVE THE ADMINISTRATION OF THE SECURITY ASSISTANCE PROGRAM CONCERNS RECOVERING ONLY THE FULL COSTS OF FMS OPERATIONS WHICH EXCLUDES THE FIXED BASE OPERATING COSTS. WE DO NOT WANT TO CHANGE TO FMS CUSTOMERS COSTS WHICH WOULD BE INCURRED WHETHER AN FMS PROGRAM EXISTS OR NOT. IF THE CHANGES ARE NOT MADE, THE ADMINISTRATIVE SURCHARGE WILL UNNECESSARILY AND INAPPROPRIATELY BE RAISED. THIS ISSUE IS VERY IMPORTANT TO THE INTEGRITY OF THE FMS PROGRAM AND WE BELIEVE IT IS SOUND AND NECESSARY. WE HAVE WORKED OUT THE LANGUAGE ON THIS WITH THE CONGRESS AND WISH TO SEE IT REFLECTED IN THE PERMANENT LEGISLATION.

THE PROVISION TO WAIVE MAP PROCEEDS WOULD RELIEVE RECIPIENT COUNTRIES AND OURSELVES OF AN UNNECESSARY ADMINISTRATIVE BURDEN. CURRENTLY COUNTRIES POSSESSING OBSOLETE MAP GRANT DEFENSE ARTICLES OF LITTLE VALUE HAVE DIFFICULTY GETTING RID OF IT BECAUSE OF THE ELABORATE PROCEDURES REQUIRED TO SEND THE PROCEEDS OF THE SALE BACK TO THE U.S. THIS PRACTICE IS NOT EITHER MILITARILY OR FINANCIALLY COST EFFECTIVE. SINCE EQUIPMENT IS SELDOM SOLD, THE WAIVER OF THE REQUIREMENT IN SELECTED CASES WILL NOT RESULT IN

ANY SIGNIFICANT LOSS TO THE U.S. TREASURY. OF COURSE, ALL LEGAL AND POLICY CONTROLS APPLICABLE TO THIRD COUNTRY TRANSFERS WOULD CONTINUE TO APPLY TO ANY SALES OF THIS EQUIPMENT.

INCREASING CRIMINAL PENALTIES FOR AECA VIOLATIONS CONTRIBUTE TO OUR DESIRE FOR BETTER PROGRAM MANAGEMENT THROUGH INCREASED DISCIPLINE AND CONTROL. WE BELIEVE THAT PRESENT PENALTIES ARE TOO LOW TO FUNCTION AS EFFECTIVE AND VIABLE DETERRENTS.

LIKEWISE, OUR PROPOSAL TO INCORPORATE MORE APPROPRIATE LANGUAGE IN THE AECA ON THE DIRECT AND CONCESSIONAL LOAN PROGRAM ENHANCES MANAGEMENT BY ELIMINATING THE REQUIREMENT OF PRESIDENTIAL CERTIFICATION THAT REDUCED INTEREST RATES FOR LOANS ARE TO THE BENEFIT OF THE UNITED STATES. THE PROPOSED REWRITE WOULD AUTHORIZE THE PRESIDENT TO PROVIDE LOANS AT CONCESSIONAL INTEREST RATES AT HIS DISCRETION, WITH REPAYMENT PERIODS NOT TO EXCEED 12 YEARS. IT WOULD ALSO PROVIDE FOR AN INTEREST RATE ON DIRECT LOANS AT THE CURRENT U.S. TREASURY RATE AT THE TIME OF ADVANCEMENT. WE CAN IMPLEMENT THE CONCESSIONAL LOAN PROGRAM UNDER CURRENT LAW WITHOUT THE ABOVE REWRITE, BUT THIS WOULD ELIMINATE AN UNNECESSARY CERTIFICATION PROCESS.

THE PROPOSED LEGISLATIVE INITIATIVE TO MODIFY THE GUARANTEED LOAN PROGRAM IS DESIGNED TO CORRECT SOME OF THE INEFFICIENCIES IN CURRENT PROCEDURES. AS YOU KNOW, THE GUARANTEE RESERVE FUND (GRF) WAS ESTABLISHED TO ENABLE THE USG TO SATISFY ITS OBLIGATIONS UNDER VARIOUS FMS LOAN AGREEMENTS TO MAKE PAYMENTS TO THE FEDERAL FINANCING

BANK (FFB) AND OTHER LEADING INSTITUTIONS WHEN BORROWERS DEFAULTED OR LOANS WERE RESCHEDULED. IF CURRENT PATTERNS PERSIST, PRIMARILY BECAUSE OF PARIS CLUB MULTILATERAL RESCHEDULING, WE PROJECT THAT PAYMENTS OUT OF THE GRF WILL CONTINUE TO EXCEED COLLECTIONS CREDITED. TO CORRECT INEFFICIENCIES, WE PROPOSE TO ELIMINATE THE CURRENT GRF AND TO TRANSFER ANY BALANCE EXISTING AT THE END OF FY 1985 TO A NEW ACCOUNT TO BE CALLED THE GUARANTEE RESERVE (GR). THE NEW ACCOUNT WILL EMPLOY A MODIFIED REVOLVING MECHANISM, BUT WHEN A REQUIRED PAYMENT EXCEEDS AVAILABLE BALANCES, THE GR WILL BE AUTHORIZED TO DRAW UPON A PERMANENT INDEFINITE APPROPRIATION. PERMANENT INDEFINITE APPROPRIATION MEANS THAT NO SPECIFIC SUM IS APPROPRIATED, THE APPROPRIATION IS NOT CONSTRAINED BY ANY TIME LIMIT AND ONCE CONGRESS APPROVES THE APPROPRIATION, NO FURTHER APPROVAL ACTION IS REQUIRED ON AN ANNUAL BASIS. IN ITS TOTALITY, THE CONCEPT MEANS THAT THE AUTHORITY WILL EXIST TO OBLIGATE AND EXPEND USG FUNDS IN THE AMOUNT NECESSARY TO COVER PAYMENTS OUT OF THE GR. THIS PROPOSED CHANGE ENSURES THAT APPROPRIATED FUNDS WILL ALWAYS BE AVAILABLE AND THAT THE AMOUNT DRAWN UPON WILL BE THE EXACT AMOUNT REQUIRED. THIS APPROACH WILL SMOOTH THE CASH FLOW PROBLEMS THAT ARE LIKELY IN FY 1987 AND BEYOND AND AVOID THE POSSIBILITY OF THE GR BEING UNABLE TO FULFILL ITS LEGAL OBLIGATION TO PAY DEFAULTED AND RESCHEDULED GUARANTEED LOANS. THIS MODIFICATION IN NO WAY REDUCES THE OBLIGATION OF COUNTRIES TO PAY. NOR DOES IT AVOID CONGRESSIONAL SCRUTINY BECAUSE REPORTS

ARE PROVIDED TO THE CONGRESS FOR COUNTRIES IN ARREARS MORE THAN 90 DAYS. MOREOVER, BROOKE AMENDMENT SANCTIONS ARE IMPOSED ON COUNTRIES IN ARREARS FOR ONE YEAR OR MORE.

OUR FINAL LEGISLATIVE PROPOSAL IN THE MANAGEMENT CATEGORY FOCUSES ON THE SPECIAL DEFENSE ACQUISITION FUND (SDAF).

SPECIAL DEFENSE ACQUISITION FUND (SDAF)

THE CONGRESS HAS SUPPORTED SDAF SINCE IT BEGAN IN 1981. WE NOW HAVE SOME EXPERIENCE WITH THE PROGRAM. IT HAS HAD THE BENEFIT OF A GENERAL ACCOUNTING OFFICE REVIEW. WE ADOPTED MOST OF THEIR MANAGEMENT SUGGESTIONS WHILE THE REPORT WAS STILL IN DRAFT. WE BELIEVE THE PROGRAM IS RUNNING SMOOTHLY AND EFFECTIVELY AND IS SERVING THE PURPOSES THE ADMINISTRATION AND CONGRESS HAD IN MIND IN SETTING UP THE FUND.

WHILE EXPLORING THE PRACTICAL BOUNDARIES OF SDAF OPERATIONS, WE MADE SOME INFORMAL PROPOSALS FOR USE OF THE SDAF THAT DID NOT RECEIVE AN ENTHUSIASTIC RESPONSE IN CONGRESS. IN EACH INSTANCE, WE ACCEPTED COMMITTEE OR STAFF RESTRAINTS ON USE OF THE FUND, EVEN THOUGH NO SPECIFIC LEGISLATION WAS PASSED. WE HAVE CLEARLY DEMONSTRATED THAT WE WANT TO WORK WITH THE CONGRESS AS THE SDAF DEVELOPS INTO AN EVEN BETTER INSTRUMENT OF FOREIGN AND DEFENSE POLICY. AS IS THE CASE FOR ANY OF OUR PROPOSALS, WE WOULD BE HAPPY TO BRIEF ANY MEMBER OR THE STAFF ON THE DEVELOPMENT OF THE SDAF AND OUR RATIONALES FOR THE SPECIFIC PROPOSALS WE ARE MAKING FOR THE IMPROVEMENT OF THE PROGRAM.

IN THE FINAL GAO REPORT THERE WERE SEVERAL RECOMMENDATIONS FOR CHANGES TO THE EXISTING LEGISLATION. WE HAVE SELECTED PART OF THEM - NOT ALL - BECAUSE WE BELIEVE THAT DEVELOPMENT OF THE PROGRAM SHOULD BE EVOLUTIONARY. WE BELIEVE OUR SELECTED PROPOSALS DESERVE YOUR UNDERSTANDING AND SUPPORT.

IN DEFENSE DEPARTMENT LEGISLATION, WE ARE SEEKING TO INCREASE THE SDAF CAPITALIZATION LEVEL ABOVE THE PRESENT $900 MILLION. AN INCREASE WAS SUGGESTED BY THE ARMED SERVICES COMMITTEES LAST YEAR. WE NEED THE INCREASE IN CAPITALIZATION TO SUPPORT THE $345 MILLION PROGRAM WE ARE PROPOSING FOR FISCAL YEAR 1986. IF THE CAPITALIZATION LEVEL IS NOT INCREASED, WE WOULD HAVE TO SEVERELY LIMIT PURCHASES IN FY 1986 BECAUSE MUCH OF THE CAPITAL WE HAVE NOW IS STILL TIED UP IN THE PIPELINE.

WE ARE ALSO SEEKING, IN THE APPROPRIATIONS BILL LANGUAGE, AUTHORITY TO SPEND THE ANNUAL CONGRESSIONALLY AUTHORIZED AMOUNT OVER A THREE-YEAR PERIOD RATHER THAN IN JUST THE YEAR GRANTED. WE HAVE BEEN HAVING SOME DIFFICULTIES WITH THE ONE-YEAR LIMIT ON OBLIGATION AUTHORITY; HIGH PRIORITY SDAF BUYS HAVE HAD TO BE POSTPONED OR FOREGONE BECAUSE THE CLOCK RAN OUT AND WE COULD NOT SYNCHRONIZE OUR SDAF EFFORTS WITH THE MILITARY DEPARTMENT PROCUREMENT CYCLES FOR SOME ITEMS. THREE-YEAR OBLIGATION AUTHORITY IS CONSISTENT WITH THE GAO'S RECOMMENDATIONS AND DOD PROCUREMENT PRACTICES.

ANOTHER LEGISLATIVE INITIATIVE IS "PROCUREMENT FOR PAYBACK." THIS WAS ALSO ONE OF THE GAO'S RECOMMENDATIONS. THE GAO REPORT SAID, "ALLOW SDAF TO PURCHASE EQUIPMENT NOT APPROVED FOR RELEASE TO FOREIGN COUNTRIES. THIS WOULD ALLOW FOREIGN NEEDS TO BE MET BY WITHDRAWING RELEASABLE EQUIPMENT FROM MILITARY SERVICE STOCKS AND REPLENISHING THOSE STOCKS WITH THE ADVANCED NONRELEASABLE VERSIONS PROCURED BY SDAF."

WE ARE DOING SOMETHING LIKE "PROCUREMENT FOR PAYBACK" TODAY FOR NORMAL FOREIGN MILITARY SALES, BUT WE DO NOT RELEASE THE OLDER ITEM FROM SERVICE STOCKS UNTIL THE NEW ITEM IS DELIVERED. THIS LEGISLATION WOULD ENABLE US TO RELEASE THE OLDER ITEM EARLIER BY FUNDING ITS REPLACEMENT IN U.S. STOCKS WITH SDAF.

"PROCUREMENT FOR PAYBACK" WOULD ONLY BE USED AS AN EXCEPTION. WE WOULD MOST LIKELY LIMIT IT TO MISSILE SYSTEMS LIKE AIM-9M, TOW-II, AND STINGER, WHERE THE OLDER MODEL IS SIMILAR TO THE NEWER MODEL IN COST AND CAPABILITIES. WE UNDERSTAND THE CONCERN THAT WE MIGHT BE TEMPTED TO SELL AN ITEM THAT IS MORE SOPHISTICATED, MORE "HIGH TECH" THAN IS NECESSARY. HOWEVER, THE DEFENSE DEPARTMENT IS VERY PROTECTIVE OF ITS TECHNOLOGY, AS YOU KNOW. NONETHELESS, WHEN WE DO NOT HAVE THE "LOWER TECH" ITEM IN PRODUCTION AND FIND IT IN OUR NATIONAL INTEREST TO PROVIDE A MILITARY CAPABILITY TO ONE OF OUR FRIENDS OR ALLIES IN AN EMERGENCY, WE ARE CAUGHT IN THE SAME DILEMMA WE HAD BEFORE SDAF. WE COULD EITHER TAKE IT OUT OF U.S. FORCES' INVENTORY AND CAUSE

AN ADVERSE READINESS IMPACT OR WE SELL THE "HIGH TECH" ITEM FROM PRODUCTION EVEN THOUGH IT MAY BE MORE THAN THE COUNTRY REALLY NEEDS AND MORE THAN WE REALLY WANT TO SELL. THIS "PROCUREMENT-FOR-PAYBACK" PROVISION WOULD GUARD AGAINST THAT EVENTUALITY. ALL SALES WILL STILL BE GOVERNED BY THE ARMS EXPORT CONTROL ACT.

THE FINAL SDAF LEGISLATIVE PROPOSAL FOCUSES ON SOLVING THE PROBLEM OF PERMITTING THE DEFENSE LOGISTICS AGENCY TO USE SDAF TO MEET UNPLANNED FOREIGN NEEDS. DLA HAS RESPONSIBILITY FOR OVER 2.4 MILLION OF THE 4.6 MILLION DIFFERENT CONSUMABLES AND REPAIR PARTS IN THE OVERALL DEFENSE SUPPLY SYSTEM. FOREIGN CUSTOMERS ARE KNOWN USERS OF ABOUT 2.1 MILLION OF THE DLA-MANAGED ITEMS. TODAY, THE LAW PRECLUDES USE OF SDAF BY DLA BECAUSE DLA WORKS ON A STOCK FUND BASIS. DEMANDS AND SALES ARE FORECAST BASED ON HISTORICAL DEMAND AND SALES DATA. WHEN A FOREIGN CUSTOMER'S UNPLANNED DEMANDS CANNOT BE TAKEN INTO ACCOUNT, DLA'S PURCHASING PATTERNS ARE DISTORTED AND THIS CAN HAVE A VERY SERIOUS REAL-WORLD IMPACT ON U.S. FORCE READINESS. WE NEED ONLY ABOUT $50 MILLION FROM SDAF TO PROVIDE TO DLA ON A ONE-TIME BASIS. WE BELIEVE THIS IS A PRUDENT MEASURE TO TAKE, BUT WE NEED LEGISLATIVE AUTHORITY TO DO SO.

TO CONCLUDE ON THE SUBJECT OF SDAF, WE BELIEVE THE OPERATION OF SDAF IN ITS FIRST THREE YEARS HAS BEEN CONSISTENT WITH CONGRESSIONAL INTENT IN LEGISLATING THE PROGRAM. THE PROGRAM IS

BEGINNING TO BEAR FRUIT IN FORESTALLING DIVERSIONS WHICH WOULD AFFECT THE READINESS OF U.S. FORCES AND IN RESPONDING TO URGENT NEEDS OF FRIENDS AND ALLIES. WE HAVE PROVIDED CONGRESS WITH FULL INFORMATION ON SDAF, AND HAVE FULLY COMPLIED WITH INFORMAL CONGRESSIONAL SUGGESTIONS WHERE SOME FELT WE WERE EXCEEDING THE CONGRESSIONAL INTENT. THE PROPOSALS WE ARE MAKING THIS YEAR ARE MINOR AND ARE MEANT TO IMPROVE THE MANAGEMENT OF THE PROGRAM WITHOUT CHANGING IT FUNDAMENTALLY. THE CHANGES ARE SUPPORTED BY THE GAO REPORT. WE URGE YOUR SUPPORT OF THESE MEASURES, BOTH THOSE WHICH ARE THE RESPONSIBILITY OF THIS COMMITTEE AND THOSE WHICH WILL LATER BE REFERRED BY OTHER COMMITTEES TO A FULL VOTE OF THE HOUSE.

NATO

TWO OF THE THREE LEGISLATIVE INITIATIVES WE HAVE SUBMITTED INVOLVING NATO SEEK TO PROVIDE ADDITIONAL SERVICES ON A NO-CHARGE, RECIPROCAL BASIS WHEN SUCH SERVICES ARE ALSO PROVIDED FREE OF CHARGE TO THE UNITED STATES. THE SERVICES WE WANT CONSIDERED ARE ADDITIONAL CONTRACT ADMINISTRATION SERVICES AND CATALOGING AND CODIFICATION SERVICES. THE PROPOSED LEGISLATION ON THESE CHANGES WOULD, ON ONE HAND, SPECIFICALLY INCLUDE A SERVICE ON THE LIST OF SERVICES PROVIDED TO NATO ALLIES FREE OF CHARGE THAT IS INHERENT TO CONTRACT MANAGEMENT AND, ON THE OTHER HAND, EXPAND THE PRESIDENT'S AUTHORITY TO PROVIDE ADDITIONAL SERVICES. BOTH INITIATIVES WOULD CONTINUE THE PRACTICE OF GRANTING SPEICAL CONSIDERATION TO NATO COUNTRIES ACROSS A SPECTRUM OF ARMS COOPERATION AND RELATED ISSUES.

ANOTHER INITIATIVE DIRECTED AT NATO WOULD PROVIDE THE SECRETARY DEFENSE AUTHORITY TO IMPLEMENT THE PATRIOT AIR DEFENSE AGREEMENT OVER THE LIFE OF THE PROGRAM. AT THE DIRECTION OF THE CHAIRMAN OF THE COMMITTEE ON FOREIGN AFFAIRS, THE AGREEMENT IS TO BE INCORPORATED INTO THE ANNUAL FOREIGN ASSISTANCE AUTHORIZATION BECAUSE IT INVOLVES THE TRANSFER OF DEFENSE ARTICLES AND SERVICES AND THE WAIVING OF ADMINISTRATIVE AND OTHER CHARGES REQUIRED FOR ARMS TRANSFERS UNDER THE ARMS EXPORT AND CONTROL ACT.

COUNTRY RELATIONS

WE HAVE OTHER INITIATIVES WE'VE GROUPED UNDER COUNTRY RELATIONS BECAUSE THEY DEAL WITH VERY SPECIFIC ASPECTS OF OUR PROGRAM WITH SPECIFIC COUNTRIES. INCLUDED ARE REMOVING CHINA FROM THE CATEGORY OF COUNTRIES PROHIBITED FROM RECEIVING ASSISTANCE TO FURTHER NORMALIZATION OF RELATIONS AND ENCOURAGE COOPERATION BETWEEN THE U.S. AND PRC; ELIMINATING A LIFE-THREATENING SITUATION TO THE CHILEAN MILITARY BY SUPPLYING SAFETY-OF-FLIGHT ITEMS NOT OBTAINABLE FROM ANY OTHER SOURCE; AND OFFERING TEN-YEAR GRACE, TWENTY-YEAR REPAYMENT ON PRINCIPAL TERMS TO THAILAND AND THE PHILIPPINES TO HELP EASE THE BURDEN OF REPAYING FUTURE FMS LOANS.

OTHER INITIATIVES

OF THE REMAINING INITIATIVES THE FIRST INITIATIVE WOULD AUTHORIZE DRAWDOWN OF COMMODITIES AND SERVICES FROM THE INVENTORY

AND RESOURCES OF ANY USG AGENCY, BY THE PRESIDENT, FOR PEACEKEEPING OPERATIONS. THE AGGREGATE VALUE WOULD NOT EXCEED $25 MILLION IN A FISCAL YEAR.

THE SECOND INITIATIVE SEEKS AUTHORITY TO INCREASE THE CEILING FOR THE WAR RESERVE STOCKS FOR ALLIES (WRSA) TO $360 MILLION. WRSA STOCKS ARE STOCKPILED ONLY IN THE REPUBLIC OF KOREA (ROK) AND COMPLEMENT WAR RESERVE MATERIEL PROCURED BY THE ROK FROM INDIGENOUS AND U.S. SOURCES AS PERMITTED BY ROK BUDGETARY RESOURCES. CONGRESS APPROVED $125 MILLION FOR FY 1984 AND $248 MILLION FOR FY 1985 BUT, FY 1984 HAD EXPIRED BEFORE CONGRESSIONAL ACTION, AND WE COULD NOT UTILIZE THE $125 MILLION AUTHORITY. THE VALUE OF THE STOCKS WHICH WE HAD INTENDED TO SHIFT IN FY 1984 IS REFLECTED IN LARGE PART IN THE FY 1986 REQUEST.

AND THE LAST INITIATIVE ADDRESSES THE VITALLY IMPORTANT ANTI-TERRORISM PROGRAM. IT SEEKS TO REPEAL SECTIONS 573 AND 577 OF THE FOREIGN ASSISTANCE ACT. THESE SECTIONS, RESPECTIVELY, PROHIBIT PROVISION OF U.S. MUNITIONS LIST ITEMS IN SUPPORT OF ANTI-TERRORISM AND TERMINATE THE PROGRAM AT THE END OF FY 1985. THE GROWING TREND OF INTERNATIONAL TERRORISM MANDATES A CONTINUATION OF THIS SMALL, BUT VITAL, PROGRAM. THE PROGRAM SHOULD BE PLACED ON PERMANENT FOOTING, SUBJECT TO THE NORMAL CONGRESSIONAL AUTHORIZATION AND APPROPRIATION PROCESS.

CONCLUDING REMARKS

MR. CHAIRMAN, LET ME CONCLUDE BY SAYING THAT OUR SECURITY ASSISTANCE PROGRAM IS A LOW COST INVESTMENT IN NATIONAL SECURITY AND, IN ADDITION, A BENEFIT TO THE NATIONAL ECONOMY. IT HELPS THE U.S. RETAIN CRITICAL OVERSEAS BASES AND OBTAIN ACCESS TO OVERSEAS FACILITIES. THE CONTRIBUTIONS OF SECURITY ASSISTANCE ENABLE FRIENDS AND ALLIES TO BETTER COOPERATE WITH THE UNITED STATES IN DEVELOPING VITAL COLLECTIVE SECURITY ARRANGEMENTS, IN SHARING THE COLLECTIVE BURDEN OF DEFENSE AND IN FURTHERING OUR MUTUAL SECURITY INTERESTS. IN THIS REGARD, SECURITY ASSISTANCE SIGNIFICANTLY REDUCES THE LIKELIHOOD THAT UNITED STATES FORCES WILL BE CALLED UPON TO INTERVENE ON THE BEHALF OF OUR FRIENDS.

FINALLY, IT IS WORTH NOTING THAT MILITARY ASSISTANCE FINANCING IS NOT A GIVEAWAY PROGRAM. WITH THE EXCEPTION OF THOSE CASES WHERE CONGRESS HAS MANDATED EXPENDITURES OVERSEAS, MORE THAN 98% IS SPENT IN THE UNITED STATES FOR ARTICLES AND SERVICES. THESE EXPENDITURES USED TO FINANCE FOREIGN MILITARY SALES RESULT IN JOBS AND TAX REVENUES AND THEY HAVE A FAVORABLE BALANCE OF PAYMENTS IMPACT. ON THE OTHER HAND, THE PROVISION OF SECURITY IS NOT BASED ON THE BENEFITS FOR THE U.S. ECONOMY NOR SHOULD IT BE LOOKED UPON AS A JOBS PROGRAM. BUT NEITHER SHOULD IT BE VIEWED AS HAVING AN ADVERSE IMPACT ON OUR ECONOMY.

LEGISLATIVE PROPOSALS

(NEW PROPOSALS IN ITALICS)

TRAINING

- PROFESSIONAL MILITARY EXCHANGE
- COAST GUARD TRAINING
- *EXEMPT MILITARY SALARIES*
- REPROGRAMMING THRESHOLD*
- *EXEMPT IMET FROM GLENN-SYMINGTON*
- IMET EXTRAORDINARY EXPENSES*

* REQUIRES APPROPRIATIONS COMMITTEE ACTION

LEGISLATIVE PROPOSALS

(NEW PROPOSALS IN ITALICS)

MANAGEMENT

- SAOs WITH MORE THAN SIX MILITARY
- FMS ADMIN. FUND USE FOR REPRESENTATIONAL FUNDS
- EXCLUDE FIXED BASE OPERATING COSTS
- WAIVE MAP PROCEEDS
- PENALTIES FOR AECA VIOLATIONS
- *CREDIT GUIDELINES*
- *MODIFY GUARANTEE RESERVE*
- *SDAF REFINEMENTS**

* ONE OF WHICH REQUIRES APPROPRIATIONS COMMITTEE ACTION

2178 5

LEGISLATIVE PROPOSALS

(NEW PROPOSALS IN ITALICS)

NATO

- *RECIPROCAL WAIVER OF CONTRACT ADMINISTRATION SERVICES*
- EXCHANGE OF CATALOG DATA
- *PATRIOT AGREEMENT INTO AECA*

LEGISLATIVE PROPOSALS

(NEW PROPOSALS IN ITALICS)

COUNTRY RELATIONS

- REMOVE CHINA PROHIBITIONS
- *SAFETY OF FLIGHT OPERATIONS*
- *10/20 TERMS FOR THAILAND AND PHILIPPINES*

OTHER

- PKO DRAWDOWN
- *AUTHORIZE WRSA AT 360M*
- *ANTI-TERRORISM ASSISTANCE*

The CHAIRMAN. Thank you very much, General.

As the Chair announced at the beginning of this hearing, we will recess this hearing at about half an hour from now. Therefore, I would like to ask the indulgence of members of the committee to limit questions in this round to about 5 minutes, so that we might all take advantage of the witnesses before the break.

We hope that members will return at 12 o'clock, when we will recommence the hearing and proceed either with these witnesses or with Mr. McPherson.

I will pass for the moment and will ask Senator Pell if he has either an opening comment or questions for the witnesses.

Senator PELL. Thank you very much, Mr. Chairman. I have no opening statement except to join you in welcoming the witnesses.

I have a couple of questions and would hope for brief replies in order to stay within the 5 minutes. Are there any plans to seek funding through the foreign assistance program to assist the contras in their struggle against the Sandinista Government?

Mr. SCHNEIDER. We have no legal authority to do such a thing, to the best of my knowledge. And as the Secretary indicated in his testimony, we would follow the law.

Senator PELL. He said he would follow the law, but there are some very ingenious lawyers who can interpret the law in a variety of ways. Am I correct in saying that you said on the record that to the best of your knowledge there is no money in this bill that goes to the contras?

Mr. SCHNEIDER. That is correct.

Senator PELL. Let me ask you if that means directly or indirectly?

Mr. SCHNEIDER. Neither directly nor indirectly are there any funds in this legislation, this legislative request, that go to the contras.

Senator PELL. Thank you very much.

Also, why is it that you are reducing the assistance for Cyprus from $15 million, which is what it was, to $3 million? This is not a new gambit on the part of the administration. I think it started under the Carter years, where you proposed a certain amount which was too low and we raised it.

I am just curious as to what your rationale was for such a substantial drop.

Mr. SCHNEIDER. The rationale, Senator, was that the objectives of the program, in helping housing and education, have largely been implemented through prior years' funding, and the resources we are requesting are sufficient to execute the ends of those programs in fiscal year 1986.

Senator PELL. As you know, some of these moneys have been going into an educational program, that has been of very real advantage to the cause of peace in that part of the world.

Mr. SCHNEIDER. Yes, sir, I agree. I think the program has served very useful ends. It is simply a question of the amount of resources that are required to achieve those ends, and between the funding that has been provided in previous years and the funds that we have requested in fiscal year 1986 we believe there are adequate funds to implement the objectives of that program.

Senator PELL. Well, I guess I will have to agree to disagree with you on that.

On another subject, what are the country eligibility criteria for concessional credits?

Mr. SCHNEIDER. We can give you a detailed characterization for the record, Senator. The basic idea relates to income criteria. That is, macroeconomic criteria about the ability of the country to afford cost of money loans to the Treasury. And the poorest countries we would largely provide grant assistance.

[The information referred to follows:]

CRITERIA USED TO DETERMINE A COUNTRY'S ELIGIBILITY FOR FOREIGN MILITARY SALES (FMS) LOANS AT CONCESSIONAL INTEREST RATES

In considering how to determine a country's eligibility for Foreign Military Sales (FMS) concessional loans (i.e., loans granted below cost-of-money to the United States Treasury), we have sought to make selection criteria as transparent as possible. Because it is the most straightforward benchmark, we have chosen per capita income as the primary criterion. Per capita income has been set in law as the sole criterion to determine repayment terms for Development Assistance loans for some time, most recently under the FY 1985 Continuing Resolution, Public Law 98-473, title II (unnumbered paragraph entitled "Loan allocation, Development Assistance"). Its use also to determine eligibility for FMS concessional lending draws together repayment criteria for our development and military aid programs, further integrating the terms of our overall assistance program as urged 16 months ago by the Carlucci Commission in its final report.

However, sufficient anomalies arise from the use of a single criterion to justify use of others in addition. Per capita income is not, by itself, a valid indicator of a country's ability to service additional Treasury-rate debt. Though how best to judge "ability to repay" is debatable, a widely accepted indicator is a country's debt service ratio. A ratio of 30 percent or above, absent mitigating circumstances, is usually taken as evidence of a strained balance-of-payments position. Ratios themselves may be somewhat misleading, however. A low current ratio may be the result of a recent rescheduling, designed to give a country breathing room to deal with a debt problem. Given that rescheduled debt increases the amount to be repaid in future years, where a rescheduling has taken place it obviously would not be helpful to use today's ratio to determine ability to repay in 1990. Projected ratios suffer from their own uncertainties about the validity of assumptions—about GNP growth, demand for a country's exports, etc. As a "best guess," though, projected ratios are probably the most useful single indicator available to guage "ability to repay." We have used projected debt service ratios—where they are available from a responsible source, such as the IMF or World Bank—as the primary indicator of "ability to repay."

We have broken FMS recipients into four categories, following criteria used by the World Bank to determine eligibility for its various levels of concessionality. This parallels and updates similar categories described above which are used to determine terms for Development Assistance loans, as set out in the fiscal year 1985 Continuing Resolution.

Category I, countries with per capita GNPs of less than $790 (1983 World Bank figures), would be eligible for an all concessional FMS program, unless other factors indicated so strong an ability to repay as to make this unnecessary. (The World Bank uses 1983 per capita GNP of $790 as its cut-off point for IDA-eligibility this year.)

Category II, countries with per capita GNPs between $791 and $1,635, would be eligible to receive part of their FMS loans at concessional rates and part at Treasury rates. In some cases (Category IIA), countries might be eligible for an all concessional program if "ability to repay"—as indicated by a current or projected debt service ratio of 30 percent or higher—were considerably in doubt. (The range $791-$1,635 is currently used by the World Bank to establish eligibility for 20 year (vice 17 year) repayment terms.)

Category III, countries with per capita GNPs between $1,636 and $2,850 would not be eligible for concessional FMS *unless* there were strong indications of repayment problems (again, debt service ratio of over 30 percent, set out in Category IIIA).

Category IV, countries with per capita GNPs above $2,850 would not be eligible for concessional FMS. (The figure represents the World Bank's cut-off for eligibility for loans; above $2,850, a country is "graduated" from the World Bank's eligible borrower rolls.)

The following is a breakdown by category of proposed FMS recipients. (Note: 1983 debt service ratios (DSR) are shown in this table for uniform comparison. Data available for selected countries show that the division into sub-categories based on whether the debt service ratio is over or under 30 percent, as indicated here, should remain valid through the medium term. See Appendix A.)

	1983 GNP per capita	Debt service ratio 1983	Proposed fiscal year1986 FMS program dollars in millions	
			Treasury	Concessional
Category I: (Eligible for concessional program on per capita GNP alone):				
Pakistan	$390	12.4	[1] $325	
Indonesia	560	19.0		$34.7
Morocco	750	[2] 50.1/24.8		5.0
Philippines	760	35.7		50.0
Category II: (Eligible for concessional/Treasury mix):				
Lebanon	n/a	n/a	10	
Cameroon [3]	800	12	7	
Thailand	810	20.5	57.5	40
Botswana	920	3.6		6
Guatemala	1,120	[4] 11.7		10
Turkey	1,230	[5] 31/28	210	345
Tunisia	1,290	15.7	26	27
Colombia	1,410	[6] 13.5	10	10
Category IIA: (Severe balance of payments problems likely to continue; should be considered eligible for all-concessional program):				
Peru	1,040	53.6		10
Dominican Republic	1,380	35.5		4
Ecuador	1,430	[2] 60/36		5
CATEGORY III: (Ineligible for concessional rate absent evidence of severe balance of payments difficulties):				
Malaysia	1,870	9.2	5	
Korea	2,010	21.6	228	
Gabon [7]	2,249	13.0	5	
Category IIIA: (Category III countries with considerable balance of payments difficulties; should be eligible for concessional FMS financing):				
Jordan	1,710	30	30	65
Panama	2,070	32.6		4
Portugal	2,190	[8] 28.2	30	35
Uruguay	2,490	57.3	2.5	
Category IV: (Ineligible for concessional rate program):				
Greece	4,290	16.8	500	
Oman	6,240	3.1	58.3	
Spain	6,840	21.1	400	
Total			1,904.3	650.7

[1] Pakistan fiscal year 1986 proposal at Treasury rate for other than economic reasons.

[2] Debt service ratios given are 1984 figures before/after rescheduling.

[3] Oil exporter with manageable balance of payments problems.

[4] Guatemala is substantially in arrears on payment of certain foreign debt; payment of arrearages likely to have significant impact on debt service ratio over the near term,.

[5] IMF/World Bank figures; both institutions project a decline in Turkey's debt service to approximately 25 percent by 1988.

[6] 1982 figure for public debt only.

[7] Per capita GDP in SDRs.

[8] IMF projections for Portugal show debt service rising to 36 percent of export earnings in 1984, and continuing in low- to-mid-thirties range through the end of the decade.

APPENDIX A

[Current and projected debt service ratios for selected FMS recipients]

	1983	1984	1985	1986	1987	1988
Category I:						
Pakistan [1]	13	12	13	14	14	12
Morocco	36	[2] 50/25	59	69	49	37
Philippines [3]	36	34	32	43	39	34
Category II:						
Thailand	20.5	23	25	24	22	....
Turkey [4]	31	29	33	29	27–28	24–26
....	28	25	25	25	24	24
Category IIA:						
Peru	54	63	58	59	58	54
Dominican Republic	36	45	41	40	39	35
Ecuador	[2] 111/33	[2] 60/36	65	60	65	74
Category IIIA:						
Panama	33	34	39	42	41	....
Portugal	28	36	34	30–31	33–35	33–36

[1] Figures represent Pakistani fiscal years; 1983 = 1982/83, etc.

[2] Before/After rescheduling.

[3] Assumes substantial rescheduling of 1984/85 debt.

[4] IMF estimates given on top line; World Bank estimates on second line.

Sources: IMF Country Economic Reports and Article IV consultation papers.

Senator **Pell**. A couple of questions are of specific interest to me; Portugal, would it be eligible for such criteria?

Mr. **Schneider**. Yes, Portugal is a country that is one of the poorest in Europe, and we do provide them with concessional assistance.

Senator **Pell**. Greece?

Mr. **Schneider**. Greece has a per capita GNP of about $6,000, which makes them one of the richer countries in the foreign assistance program. So we do not propose to provide concessional assistance in fiscal year 1986. However, in the fiscal 1985 continuing resolution the Congress saw fit to provide Greece with concessional assistance.

Senator **Pell**. Correct.

What about Turkey?

Mr. **Schneider**. Turkey gets concessional assistance. Turkey has a GNP per capita of about $1,200. As a consequence, its economic condition makes it necessary to provide concessional assistance.

Senator **Pell**. Thank you.

To return to Central America for a moment, do you anticipate any supplemental appropriations requests for that part of the globe?

Mr. **Schneider**. No.

Senator **Pell**. In other words, the only supplemental appropriation request would be for Israel and Egypt?

Mr. **Schneider**. Yes, as well as the emergency food supplemental request that has already been before the Congress.

Senator **Pell**. Thank you very much.

The **Chairman**. Thank you very much, Senator Pell.

Senator Murkowski.

Senator **Pell**. And thank you for the brevity of your replies. I do appreciate it.

Senator **Murkowski**. Thank you very much, Mr. Chairman.

Last year I expressed my concern about what I consider inconsistencies in the manner in which this entire process is organized and established and how it operates. I think Senator Pell's question of concessional credits points out very vividly that there are indeed inconsistencies.

There is a broad policy interpretation any time an agency evaluates which country is in need of a concessional rate. And I believe the concessional rate is 5 percent.

Mr. **Schneider**. That is correct.

Senator **Murkowski**. And the market rate is about 10.5 percent?

Mr. **Schneider**. About 13 percent, I believe.

Senator **Murkowski**. Is that with the markup by the Government or is it the market rate?

Mr. **Schneider**. No, it is a formula that is used to identify the cost of money to the Treasury. The Treasury does its financing through a bunch of instruments of different maturities, so there is some sort of average rate that is used as the basis for cost of money of Treasury loans.

Senator **Murkowski**. I know, but the Government borrows at the theoretical cost of money, which is in the neighborhood of the prime rate. Now, why is the market rate necessarily 1½ percent over that if indeed the Government is not taking into account a service charge for it?

Mr. **Schneider**. The Treasury rate is now at about 11.7 percent. I overstated it slightly.

The reason there are some differences between prime and the Treasury rate is prime is a relatively short-term interest rate, whereas the Treasury borrows sometimes out to 30 years. So there is a different term structure.

Senator **Murkowski**. I do not think you will find the Treasury borrowing out to 30 years any more, because nobody is buying Treasury notes. I would like to see some, because that is part of our problem. There is no confidence in the Government and as a consequence in reality you are borrowing short, not borrowing long.

Mr. **Schneider**. In general, most of the borrowing is short-term. But when I was working in OMB a couple of years ago, they were borrowing some at long term.

Senator **Murkowski**. Well, they are not any more. I would like to have an explanation of why there is a difference above conventional market rates, when you say that it is representative of an amount over 11 percent. I do not understand it.

Mr. Chairman, I know that this is not the place necessarily to go into a great deal of deliberation on this; but we now are cutting in effect our benefit programs in the United States—particularly I am reminded of veterans' mortgages, where the administration has come up with a 5 percent closing fee on veterans mortgages when previously they were at 1 percent—and yet we see the vast application of inconsistencies in establishing an interest rate we call concessionary at 5 percent.

And If I were a representative of a country that perhaps was not a beneficiary of a concessionary rate, I would question just why the United States as a good neighbor is giving it to one and not another. Another point I would note, in looking particularly at the area of my responsibility, Mr. Chairman, the Pacific and East

Asian area, is that I find it extraordinary that in fiscal years 1985 and 1986, most of the total amount that we are giving is really no more than those countries' interest on the accumulated debt.

The result? We are putting these countries deeper into debt. Look at the Philippines, as an example. In fiscal year 1985 their total debt to us for previous military sales is $43 million. The principal is $28 million and the interest is $15 million. The concessional loan amount that we are giving the Philippines this year is $15 million.

They are not the same dollars; but the realities are the Philippines have to find $15 million out of the pot to pay us back. In fiscal year 1986, the total debt is $45 million. The principal is $28 million and the interest is up to $17 million.

So their debts are growing and we are putting them deeper into debt each year. We are giving them a grant of $25 million, we are giving a concessional loan of $15 million at below market rates, and, as a result, they are deeper in debt. Yet the money we loan them this year in effect is money they have to use to pay us back—so they are no further ahead.

I just do not understand this principle.

[The information referred to follows:]

PRIME RATE VERSUS TREASURY RATES

Prime rate, the base rate at which large U.S. commercial banks make loans available to their best corporate customers, is an administered interest rate, rather than truly a market interest rate. That is, it is a rate set by lenders for an indefinite period of time, based on lenders' cost of money and on their perceptions of what rate their customers will accept over prime). The prime rate is subject to change at the discretion of the lender; when it is changed, it affects the entire stock of debt that is based on prime. Prime thus offers no guarantee against change for any period of time. In recent years, prime has varied in as little as 2 days (dropping from a rate of 14.5 percent which had been set on August 16, 1981, to 14 percent on August 18); it has also remained set for as long as 7 months (at 11 percent between August 1983 and March 1984). On Friday, March 22, 1985 the prime rate stood at 10.5 percent. It last changed value on January 15th.

On the other hand, rates of interest charged by the United States Treasury on Foreign Military Sales loans are directly linked to the the rate of interest Treasury would have to pay for an equivalent term in the market place on the day the FMS loan is drawn down. FMS recipients receive loans with fixed rates of interest for the specified life of the loan (up to 30 years if the recipient is approved for such term by the Congress, otherwise up to 12 years). For FMS loans authorized prior to FY 1985 the Federal Financing Bank acts as the lender on behalf of the U.S. Treaury. To assure a balance between outlays and receipts, the Federal Financing Bank takes an offsetting liability from the Treasury at the same term offered the FMS recipient, thus locking the costs of the loan to the FFB as well. Rates for FMS loans are thus set by the marketplace on a daily basis. Because the Treasury is required by law to charge a rate based on its average cost of money for equivalent maturities, the actual rate charged is determined by means of a formula which incorporates current market yields of equivalent maturities already outstanding. At close of business Friday, March 22, 1985, the rate charged on 12-year maturities stood at 11.95 percent. Because maturity does not enter into consideration in prime rate lending, there is no Treasury security equivalent to a line of credit offered at the prime rate.

Mr. SCHNEIDER. If I may comment briefly, Mr. Chairman. You have put your finger on precisely the problem we are trying to get our arms around. What we have found over the past several years is that the structure of the foreign assistance program, where we had a small amount of grant funds and a larger amount of loans, of credit to offer at cost of money to the Treasury, was not in the economic interest of the countries we were trying to assist.

The Congress has generally not gone along with our requests for as much grant assistance as we would like to have. As a consequence, we tried to come up with an alternative that would mitigate the debt problem. It would not solve it, but it would mitigate it. And that was the origin of the concessional program.

We would be pleased to have a dialog with this committee about this general problem to see if we might come up with some better solutions. I think Senator Murkowski has gotten directly at the problem in his remarks, and I appreciate it.

Senator **Murkowski**. Mr. Chairman, I want to just make one other observation. If we look at Korea, we find that we are proposing to loan to them $220 million at market rates. However, the total FMS debt in 1985 of Korea is $248 million and the principal outstanding is $138 million, the interest to service the debt is $110 million.

Now, here is a country that is a great friend of the United States, probably the most significant example of our foreign policy working. But we are acting as a bank to them, at a time we have a deficit trade imbalance of $4 billion or $5 billion with them.

It is in our best interest to have military sales to that country. But when you look at the interest that they are paying which is half the amount of the loan, we are better off to loan them $100 million and give them the rest because they are going to have to pay that interest back. It is half the amount that we are loaning. Next year it is going to be more.

Mr. **Schneider**. In the case of Korea, they have the happy circumstance of having a high rate of economic growth and they are able to service the debt. But this is not true in every case.

Particularly in the case of Israel and Egypt, which are the two countries most heavily burdened by FMS debt, we have changed that program, with the support of the Congress, to an all-grant program. I think there are many cases where such a change could be appropriately justified. So there is a lot of detail to this and I would welcome an opportunity to discuss it further and get perhaps some ideas that you might have about how we could get at solving this problem more rapidly than we have done to date.

[The information referred to follows:]

Rationale for Proposed Fiscal Year 1986 Concessional FMSCR Recipients

We have proposed concessional FMSCR to 15 countries (not counting the all-forgiven FMSCR for Egypt and Israel) in FY 1986. We have chosen these countries because we believe that while they have serious short-term economic problems warranting less than full Treasury rate loans, their long term prospects were sufficiently good that all MAP grant programs were not justified. The primary determinant of the eligibility of a country for concessional and of the proportion of its FMSCR to be concessional is per capita GNP, though other factors (e.g., debt service ratio) are also considered. Following is a brief sketch of the reasons we chose each country, based on the CPD, plus a comparison as appropriate in millions of dollars of FY 1985 allocations and FY 1986 requests for MAP, concessional and Treasury rate FMSCR. Per capita GNP figures are for 1983, taken from the World Bank's Memorandum "Per Capita Income Guidelines for Operational Purposes" of November 8, 1984.

EAST ASIA

Indonesia (per capita GNP $560).—The terms of our assistance programs are of particular importance to the Indonesians as they adjust to the drop in oil prices, which account for two-thirds of all government revenue and seventy percent of foreign exchange receipts. With the oil price and oil production outlook far from favorable, Indonesia faces at best stagnant foreign exchange earnings and at worst a sharp decline in its export receipts. The government has taken strong action to meet its economic difficulties even though this has meant substantial budgetary restraints in economic development areas.

	Fiscal year 1985 allocation	Fiscal year 1986 request
FMS(C)	20.0	34.7
FMS (T)	12.5	0

Philippines (per capita GNP $760).—The Philippines is experiencing its most critical economic crisis since World War II. A serious liquidity problem on top of a major a major structural imbalance in the economy forced the Government of the Philippines in October 1983 to devalue the peso, declare a moratorium on the repayment of commercial debt principal, open negotiations with the IMF for a standby arrangement, and seek debt rescheduling. Agreement has been reached with the IMF on a $615 million standby credit, a crucial first step toward overcoming the financial crisis. In the meantime, the Philippines registered real GNP decline of around 5.5 percent in 1984, with inflation of over 50 percent. Positive real GNP growth is unlikely to resume until 1986, and then only at a modest rate. While as noted, per capita income for 1983 was $760, by this year it had dropped to $600. The need to restrict government expenditures, curtail imports and service a large external debt will weigh heavily on the Philippines for the remainder of this decade.

	Fiscal year 1985 allocation	Fiscal year 1986 request
FMS (C)	15	50
MAP	25	50

Thailand (per capita GNP $810).—Thailand has made significant progress in dealing with its Communist insurgencies. The Thai Government is committed to an extensive program of rural development and job creation. In light of these competing requirements (over 20 percent of the national budget already goes to defense), U.S. assistance for Thailand's force modernization is particularly important if it is to become militarily self-reliant without incurring an unacceptable debt burden. Recently, Thailand's external debt has increased noticeably and while the government has made control of the debt a top priority. The IMF excepts debt service to consume 25 percent of Thailand's earnings from export of goods and services this year, up from 20.5 percent in 1983. Additionally, Thailand faces persistent current accounts deficits and has had to devalue its currency.

	Fiscal year 1985 allocation	Fiscal year 1986 request
FMS (T)	95	57.5
FMS (C)	0	40
MAP	5	5

NEAR EAST

Jordan (per capita GNP $1,710).—Jordan confronts serious financial problems in meeting its military needs. A decline in foreign exchange reserves has placed contraints on the Jordian economy and foreign debt service (perhaps at 30 percent of export earnings) is expected to increase over the next few years. Although at the 1978 Baghdad Arab Summit Arab, oil-producing states pledged annual subsidies of $1.2 billion to Jordan, the full amount has never been received and Jordan's overall aid from Arab sources has declined sharply. Despite these constraints, Jordan received high marks for its economic management and prudent fiscal policies from an IMF team which visited the country in 1983.

	Fiscal year 1985 allocation	Fiscal year 1986 request
FMS (T)	42.5	30
FMS (C)	47.5	65

Morocco (per capita GNP $750).—Currently in difficult economic circumstances, Morocco seeks increased assistance while undertaking the economic reforms and IMF-mandated austerity measures designed to bring the country into balance of payments equilibrium. Economic weakness is attributable in great part to factors beyond Morocco's control: drought, appreciation of the dollar, deteriorating terms of trade, and an expected debt service ratio of over 50 percent in 1985.

	Fiscal yer 1985 allocation	Fiscal year 1986 request
FMS (T)	3	5
FMS (C)	40	45

Tunisia (per capita GNP $1,290).—After several years of difficulty, Tunisia's economy is showing signs of modest recovery. There has been growth in manufacturing and phosphates and petroleum production, although stagnation has continued in the agricultural sector. An increased trade deficit combined with lower tourism receipts and remittances, however, have added to the country's indebtedness, raising the debt service ratio to near 20 percent. Efforts were made in early 1984 to reduce internal budget deficits by eliminating food subsidies, but this sparked serious unrest.

	Fiscal year 1985 allocation	Fiscal year 1986 request
FMS (T)	25	26
FMS (C)	25	27
MAP	15	16

EUROPE

Portugal (per capita GNP $2,190).—The United States has pledged its best efforts to assist Portugal with military modernization and economic development. Such support is vital at a time when Portugal—one of the poorest countries in Western Europe—is seeking to reform its troubled economy by pursuing a stringent austerity program in the short term (1984–85) and programs for economic recovery and modernization over the medium term (1985–87). Portugal's debt service burden over the medium term is expected to remain in the troublesome range, from 30 percent to 36 percent of earnings from its export of goods and services.

	Fiscal year 1985 allocation	Fiscal year 1986 request
FMS (T)	55	30
FMS (C)	0	35
MAP	70	70

Turkey (per capita GNP $1230).—Turkey is in the midst of a radical restructing of its economy toward free enterprise and market forces. By implementing a stringent stabilization program in coordination with the IMF, World Bank and Organization for Economic Cooperation and Development (OECD) donors, Turkey has improved its balance of payments situation. Turkey's debt service burden currently estimated at 30 percent of export earnings will require careful management, however, and the Turkish economy is still not in a position to meet critical defense and economic requirements without significant concessional assistance.

	Fiscal yer 1985 allocation	Fiscal year 1986 request
FMS (T)	235	210
FMS (C)	250	345
MAP	215	230

AFRICA

Botswana (per capita GNP $920).—Botswana's economy is free market-oriented rather than state-controlled and the government follows a fiscally conservative policy. Its population of about 1 million is scattered over a Texas-sized area lacking in infrastructure. Botswana's agriculture and livestock sectors have been ravaged by 3 consecutive years of drought, requiring increasing government expenditure on relief activities, and drought is expected to continue.

	Fiscal year 1985 allocation	Fiscal year 1986 request
FMS (T)	5	6
FMS (C)	4	4

LATIN AMERICA

Colombia (per capita GNP $1,410).—Colombia's long-term economic prospects are good, but it faces deepenig economic problems in the near term, given commercial bankers' unwillingness to extend new credits. Colombia has been able to service its foreign debt, but at the cost of cutting its international reserves. The economy is sluggish, with growth at only 1 percent per annum for the past 2 years and unemployment at or above 14 percent. International reserves have fallen alarmingly, from $5.6 billion in 1982 to $1.7 billion in mid-1984. The defense budget has been reduced dramatically; at the same time, Colombia has increased the internal security role of the armed forces in combatting narcotics-related terrorism.

	Fiscal year 1985 allocation	Fiscal year 1986 request
FMS (T)	4	10
FMS (C)	4	10

Dominican Republic (per capita GNP $1,380).—In the face of continuing balance of payments difficulties, due mainly to heavy dependence on imported oil and lower world prices for exports, the Dominican Republic lacks sufficient foreign currency resources to acquire needed military equipment and other imports. The country is in the midst of an economic adjustment program to provide for future equilibrium and growth. The Dominican Government has already implemented a number of adjustment measures including greatly increasing the retail price of petroleum products by transferring oil imports to an intermediate exchange rate. The adjustment program will require exchange rate unification and major cuts in government spending. Depsite efforts to stabilize the economy and the fiscal situation, the Dominican Republic has accumulated sizable arrearages. Negotiations with the IMF for a standby agreement by early 1985 are underway.

	Fiscal year 1985 allocation	Fiscal year 1986 request
FMS (T)	0	4
FMS (C)	5	6

Ecuador (per capita GNP $1,430).—The new government of Leon Febres-Cordero, favors encouraging private enterprise and the operation of the free-market system. It must struggle, however, with a $6.9 billion external debt while attempting to implement its economic program and upgrade national development capabilities of its security forces. Debt service, if no payments are rescheduled, consumes over 60 percent of export earnings. The government's commitment to greater reliance on the individual and the market place to regulate economic decision-making is a radical departure from the more traditional interventionist policies found in Latin America. Except for a few arrearage problems, Ecuador has complied with its first IMF agreement, which expired in July, and the government supports bilateral negotiations with its creditors.

	Fiscal year 1985 allocation	Fiscal year 1986 request
FMS (T)	2	0
FMS (C)	2	5

Guatemala (per capita GNP $1,120).—Guatemala is experiencing serious economic difficulties stemming from low current prices for its traditional agricultural exports and from the collapse in regional demand for its manufactured exports. In addition, insurgent activity has harmed agricultural production and tourism. Real growth in GDP in 1983 was a negative 2.5 percent, and government fiscal deficits have widened. Guatemala's principal short-term economic problem is its inability to obtain financing to maintain essential imports. Guatemala's foreign exchange crunch threatens to further cripple the economy, already hampered by tight import controls.

	Fiscal year allocation	Fiscal year 1986 request
FMS (C)	0	10

Panama (per capita GNP $2,070).—Panana's economy, one of the most open in the region, is heavily based on services which it provides to faciliate international trade, primarily in Latin America. With the onset of Latin America's debt crisis in 1982, the region's import demand fell sharply, and as a result demand for many of Panama's services—in International Banking, the Colon Free Zone, and in Canal transit services—fell sharply. Given prospects for a slow recovery in import demand in the region, Panama's service sector, its economic backbone, faces a number of years of at best sluggish growth. While the government must limit its expenditures (and has limits on the amount it can borrow placed on it by an IMF Standby Arrangement), the Panama Defense Force must undertake increased responsibilities for Canal defense under the 1977 Canal Treaties, and increased spending for its modernization is essential. Our proposed concessional FMS program for FY 1986 contributes to that modernization process while placing a minimal strain on Panama's near-term budget outlays.

	Fiscal year 1985 allocation	Fiscal year 1986 request
FMS (C)	0	4
MAP	10	14.4

Peru (per capita GNP $1,040).—The pro-Western Belaunde administration's efforts to reorient the economy from statist to a free market system have foundered in the face of the "El Nino" natural disaster, the Latin American debt crisis, weak mineral export prices, the counter-insurgency effort against the Sendero Luminoso, and the persistent legacy of the preceding regime. Economic contraction, manifested by a 14 percent fall in per capita income in 1983 and poor results in 1984, has reduced private sector credit availability, as government borrowing needs have produced a squeeze. Lack of government revenues had hampered availability of counterpart funds, slowing development projects. Unemployment and inflation have risen sharply, creating political instability. Peru's medium term debt burden is one of the most serious among developing countries. Pending final negotiation of agreements to reschedule debts due in 1984 and 1985, Peru accumulated several hundred million dollars in payment arrearages. Debt service for 1984 before rescheduling is estimated to be approximately 72 percent of earnings from exports of goods and services. Should rescheduling be completed successfully this will drop to 34 percent.

	Fiscal year 1985 allocation	Fiscal year 1986 request
FMS (T)	3	0
FMS (C)	5	10
MAP	0	18.35

Senator MURKOWSKI. It would seem to me, Mr. Chairman, that with regard to the situation in Korea, it is questionable if there is a need for a loan. The Koreans can buy military equipment from us. The only thing we are doing is ensuring by lending it that they are going to buy from us alone, but by the same token they have never bought from anybody else.

We have what, 40,000 military personnel in Korea at this time? I just question the necessity for this.

Mr. Chairman, I am thinking seriously of entering an amendment for appropriate action at some point in time to withdraw the concessionary 5-percent loan program for FMS loans. I just wanted to put the committee on notice that I am openminded on it, but I think it is time to consider changing the FMS programs when we are making such significant cuts throughout the budgetary process in all of our committees. We should not continue to have such an unrealistic interest rate on our concessionary loans and to have such a broad inconsistency and application in this category.

And in looking at the increased indebtedness of each country as a consequence of this, I do not think we are doing them a service; I think we are doing them a disservice.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator.

Senator Sarbanes.

Senator SARBANES. Secretary Schneider, how much is the increase in your budget this year?

Mr. SCHNEIDER. In the security assistance budget, in percentage terms it is about 6 percent over the fiscal year 1985 enacted level.

Senator SARBANES. Six percent as submitted?

Mr. SCHNEIDER. As requested, yes.

Senator SARBANES. And you have a blank figure for Israeli economic assistance?

Mr. SCHNEIDER. That is correct.

Senator SARBANES. When do you propose to give us that figure?

Mr. SCHNEIDER. The budget amendment is being worked on now. We hope to have it up to the Congress shortly.

Senator SARBANES. What does "shortly" mean?

Mr. SCHNEIDER. The next couple of weeks, hopefully less.

Senator SARBANES. When is markup scheduled, Mr. Chairman?

The Chairman. Markup will commence next Tuesday morning.

Senator SARBANES. Is it intended to proceed to markup without having the benefit of the administration's view on this important question?

Mr. SCHNEIDER. The Secretary expressed his view in support of a $1.2 billion level of ESF for fiscal year 1986. We may not have the paperwork up to you to support that by next Tuesday. We hope to have it done, but it may not be done.

It was for reasons that we might not have the paper up that Secretary Shultz last week did indicate his support for this figure.

Senator SARBANES. Mr. Chairman, it seems to me we ought to have some official communication from the administration on an important component of its submission before markup.

Adding the $1.2 billion figure in, what would the percentage increase in your budget be?

Mr. SCHNEIDER. I will have to calculate it for you, Senator. I do not have it before me, but it would increase the percentage increase somewhat.

Senator SARBANES. I want to get that figure before I finish my round of questioning. In the interim, so that you know where I am coming from, I am interested in some of the statutory provisions that are in this legislation. And I would like first to turn to section 105.

These are on sales credits and there is a provision there, notwithstanding the preceding sentence, that the President may charge a lesser rate of interest if he determines that the national interest requires a lesser rate. How low could that lesser rate be?

Mr. SCHNEIDER. It is around 5 percent, which is the minimum rate.

Senator SARBANES. Where is that minimum rate specified?

Mr. SCHNEIDER. That is administratively determined. But we have testified in our budget request last year that the CPD request justified the 5 percent.

Senator SARBANES. Let me ask this question: Would statutory authority proposed here enable the President to charge a rate of interest at, say, one-half of 1 percent?

Mr. SCHNEIDER. Yes, that would be legally correct. However, the CPD level proposed 5 percent and that is all that was justified to the Congress.

Senator SARBANES. Why is that the case? This statutory language seems to be pretty broad and pretty explicit.

Mr. SCHNEIDER. The administration does not intend to change the terms beyond what was justified in the congressional presentation document, we would be changing the terms that had been justified to the Congress.

Senator SARBANES. Except that you have instances in which you make a presentation to the Congress, but certain waiver authorities are given to the President by legislation, and on occasion he exercises them.

I do not find the assurance that this broad language in section 105 could not be used virtually to waive all interest.

Mr. SCHNEIDER. I do not think you would find that to be a problem, Senator. In the first instance, no credits have gone out.

Senator SARBANES. But that is not your intention. Therefore, if we restrain it you have no objection to that?

Mr. SCHNEIDER. No, we do not intend to offer any credits below 5 percent.

Senator SARBANES. So you do not need language this broad, in other words?

Mr. SCHNEIDER. Not to execute the program we have proposed.

Senator SARBANES. Now, on section 106, what is the status of the guarantee reserve fund? You are proposing here to eliminate authorizations except an open-ended authorization for the guarantee reserve fund?

Mr. SCHNEIDER. Yes, after fiscal 1986. Perhaps General Gast can describe the situation of the GRF.

General GAST. Last year, sir, there were some funds appropriated, $109 million, for the guarantee reserve fund. Today the guarantee reserve fund is approximately $533 million. The funds are used to make payments to the Federal Financing Bank under two conditions: one, when there is a Paris Club rescheduling, because we must pay FFB even when debts are rescheduled on a multilateral basis; and another one is when there are late payments by countries.

It is very difficult to predict when that will be needed, because we are unable to project how many countries will have their debts rescheduled, It is out of our hands so far as the guarantee reserve fund goes. The rate at which it has been declining is around $300 million per year, based largely on the reschedulings.

This proposal, as I understand it and as I am told within OMB and others, would put this program on a basis much like other programs are where there are guarantee fees. It would not be unique to put it into a permanent, indefinite appropriation.

There are other guaranteed loans, for agriculture and others, that are paid this way, as I understand it. There would be reports to the Congress not only in the congressional presentation document as to the status of the reserve account and the amount that had been used, but also in the spring and summer update that is provided by OMB to the Congress on all guarantee reserve funds.

Senator SARBANES. Then this is an open-ended authorization, so that hereafter, if this section is enacted, it would only be necessary to obtain an appropriation from the Appropriations Committee to deal with any financing problems connected with the guarantee reserve fund. Is that correct?

Mr. SCHNEIDER. It would be a permanent appropriation as well, Senator.

General GAST. It would not change any of the way that the program is handled today, Senator, in that the Brooke amendment would still apply. Countries, if they did not pay, would fall under the Brooke amendment. It would not relieve the pressures on countries to pay. It would not reduce the visibility of the program.

As we see it, the recoveries, either through late payments, which occur almost on a daily basis, or when a rescheduling is finished and payments resume, would go back into the reserve account. Those indefinite appropriations would only be used when there was no money in the account, and there would be reports that would indicate how much had been used.

Senator **Sarbanes**. Mr. Chairman, could we have from the administration a list of all of the reschedulings, arrearages, and technical defaults that have occurred in the past 3 years requiring coverage from the guarantee reserve fund?

Mr. **Schneider**. We will provide that for the record.

The **Chairman**. Thank you.

[The material referred to follows:]

The attached information shows payments on FMS debt either in arrears or rescheduled which resulted in payments out of the reserve guarantee fund. The General Accounting Office is currently preparing a comprehensive report on this subject which we expect to be issued within the next 2 months.

GUARANTY RESERVE FUND ACTIVITY REPORT—LATE PAYMENTS—RESCHEDULING AND RECOVERIES AS OF MAR. 31, 1985

Country	Payments—Fiscal year—				FY 1985 Transactions			FY 1985 collections of resched loans	Cumulative totals			Due unpaid late payments	Rescheduled recoveries	Due balance rescheduled
	1981 and prior	1982	1983	1984	Payments to FEB	Recovered payments	Rescheduled payments		Payments	Recoveries	Rescheduled			
Bolivia	$4,319,148	$1,552,527	$1,457,179	0	$64,930	0	0	0	$7,393,784	$7,328,854	0	$64,930	0	0
Botswana	0	0	104,550	$456,900		$456,900	0	0	561,450	561,450	0	0	0	0
Brazil	0	0	552,181	8,662,536		0	0	0	9,214,717	9,214,717	0	0	0	0
Cameroon	988,109	1,019,199	3,172,563	324,476	1,243,081	0	0	0	6,747,428	5,504,347	0	1,243,081	0	0
Colombia	4,368,821	894,116	0	4,617,492	3,447,626	1,265,243	0	0	13,328,055	11,139,892	0	2,188,163	0	0
Costa Rica	612,216	1,156,653	535,901	0		0	0	0	2,304,770	2,304,770	0	0	0	0
Dominican Republic	701,053	707,302	1,675,361	2,273,450	1,429,495	27,846	0	0	6,786,661	4,398,689	0	2,387,972	0	0
Ecqador	0	1,452,639	7,800,082	7,162,168	2,624,439	502,715	0	0	19,039,328	6,777,157	$6,578,664	5,683,506	0	$6,578,664
Egypt	9,592,832	0	160,992,671	393,252,570	219,786,964	81,885,539	0	0	783,625,037	470,450,785	0	313,174,251	0	0
El Salvador	394,494	2,256,563	4,175,957	9,290,363	5,681,141	7,938,531	0	0	21,798,518	14,981,258	0	6,817,260	0	0
Gabon	512,098	0	1,174,761	60		0	0	0	1,686,919	1,686,919	0	0	0	0
Guatemala	0	156,972	42,834	0		0	0	0	199,806	199,806	0	0	0	0
Haiti	54,431	66,810	193,462	185,634	95,606	99,308	0	(0)	595,943	595,943	0	0	0	0
Honduras	364,898	666,431	1,030,727	5,540,633	1,681,791	3,379,417	0	0	9,284,480	9,284,480	0	(0)	0	0
Jamaica	0	66,449	56,732	332,211	162,321	104,039	$276,601	0	617,713	227,220	276,601	113,892	0	276,601
Jordan	32,979,262	31,486,992	79,238,961	82,269,691	47,529,145	45,709,414	0	0	273,504,051	209,762,995	0	63,741,055	0	0
Kenya	4,429,589	1,831,270	3,117,105	312,456	1,210,026	8,220	0	0	10,900,446	9,698,640	0	1,201,806	0	0
Lebanon	9,233,090	21,374,794	11,946,844	16,492,643	13,987,851	13,987,851	0	0	73,035,222	73,035,222	0	0	0	0
Liberia	1,249,928	2,246,946	3,145,078	3,352,961	1,778,033	0	0	$60,233	11,772,946	3,449,238	5,770,489	2,553,219	$203,511	5,566,978
Morocco	80,626,200	40,167,343	41,491,069	41,136,453	20,937,179	666,256	5,883,825	0	224,358,244	126,791,649	79,924,312	17,642,283	0	79,924,312
Nicaragua	3,410,273	0	0	0		0	0	0	3,410,273	3,020,917	0	389,356	0	0
Niger	0	94,612	77,762	587,060	474,841	17,488	0	0	1,234,275	191,083	579,156	464,036	0	579,156
Oman	3,259,342	0	0	522,314	25,440	23,616	0	0	3,807,096	3,795,890	0	11,206	0	0
Pakistan	0	0	0	180		0	0	0	180	180	0	0	0	0
Panama	0	0	222,727	235,687	106,482	219,305	0	0	564,896	564,896	0	0	0	0
Paraguay	175,371	0	0	0		0	0	0	175,371	175,371	0	0	0	0
Peru	11,298,629	0	2,616,908	10,881,104	2,925,532	0	0	0	27,722,173	3,644,600	18,804,177	5,273,396	4,417,455	14,386,722
Philippine	0	0	0	1,706,913	12,648,841	0	0	0	14,355,754	1,706,913	0	12,648,841	0	0
Rwanda	0	19,074	268,334	94,456		0	0	0	381,864	381,864	0	0	0	0
Senegal	2,600,644	1,383,425	1,316,044	1,242,730	595,236	0	0	59,370	7,138,079	1,880,217	4,049,971	1,207,891	234,989	3,814,982
Somalia	0	1,023,062	2,898,313	6,292,020	3,475,599	2,249,028	0	0	13,688,994	6,830,403	0	6,858,591	0	0
Spain	0	0	202,107	0		0	0	0	202,107	202,107	0	0	0	0
Sudan	1,404,564	7,412,796	14,899,957	14,993,221	7,521,923	0	14,938,721	0	46,232,461	312,260	40,483,684	5,436,517	0	40,483,684
Taiwan	0	0	2,940,448	0		0	0	0	2,940,448	2,940,448	0	0	0	0
Thailand	0	0	555	0		0	0	0	555	555	0	0	0	0
Tunisia	1,103,147	55,872	1,215,778	1		0	0	0	2,374,798	2,371,648	0	3,150	0	0
Turkey	241,162,216	99,353,790	89,496,780	0		0	0	12,523,909	430,012,786	2,963,220	427,049,566	0	80,191,705	346,857,861
Uruguay	0	0	986,227	0	332,054	332,054	0	0	1,318,281	1,318,281	0	0	0	0

GUARANTY RESERVE FUND ACTIVITY REPORT—LATE PAYMENTS—RESCHEDULING AND RECOVERIES AS OF MAR. 31, 1985—Continued

Country	Payments—Fiscal year—				FY 1985 Transactions			FY 1985 collections of resched. loans	Cumulative totals			Due unpaid late payments	Rescheduled recoveries	Due balance rescheduled
	1981 and prior	1982	1983	1984	Payments to FEB	Recovered payments	Rescheduled payments		Payments	Recoveries	Rescheduled			
Zaire	10,594,686	429,474	831,780	1,177,467	1,380,572	0	0	109,694	14,413,979	533,661	12,499,746	1,380,572	6,975,628	5,524,118
Total	425,435,041	216,875,111	439,877,738	613,395,850	351,146,146	158,872,772	21,099,147	12,753,206	2,046,729,886	1,000,228,547	596,016,366	450,484,973	92,023,288	503,993,078

GUARANTY RESERVE CASH BALANCE AS OF MAR. 31, 1985

	Fiscal year 1985—		
	Disbursements	Recoveries	Total
Opening cash balance Sept. 30, 1984			$551,903,892
Add: Funds appropriated in fiscal year 1985 budget			109,000,000
Total			660,903,892
Late payments to Mar. 31, 1985	$351,146,146	$158,872,772	
Rescheduled (recoveries) Mar. 31, 1985		12,753,206	
Totals	351,146,146	171,625,978	
Net disbursements to Mar. 31, 1985			179,520,169
GRF cash balance as of Mar. 31, 1985			481,383,723

Mr. **Schneider**. Senator, we have that information you requested about the growth in the foreign assistance program authorized by this committee. When we include the additional funds for Israel that we discussed, the growth over the 1985 enacted would be 6.6 percent.

That of course excludes the funding for the multilateral development banks and Public Law 480, which is in the foreign assistance program in the budget function. We are not including it here because this committee does not deal with the Public Law 480.

Senator **Sarbanes**. Well, the $1.2 billion is set off against what base?

Mr. **Schneider**. The 1985 enacted foreign assistance for this committee is $13.6 billion, and the 1986 request for Israel, when the $1.2 billion is included, will be $13.87 billion.

Senator **Sarbanes**. I need to see those figures, because as I understood it you told me that the figures given to us represented a 6-percent increase without the $1.2 billion.

Mr. **Schneider**. That is in the security assistance accounts alone. But your question as I understood it, Senator, was in the legislation that this committee is addressing. So I addressed myself to the larger fraction, that is the larger piece, which was the legislation that this committee is addressing.

Senator **Sarbanes**. Would you give me a table on that, please.

Mr. **Schneider**. Sure, we will provide a table for the record for you.

[The material referred to follows:]

The FY 1986 foreign assistance request (adjusted to include $1.2 billion ESF for Israel) is 6 percent higher than the FY 1985 enacted level (See Table I). Economic assistance would increase by 1.6 percent while military assistance would rise by 12.7 percent. Over 70 percent of the increase in military assistance is attributable to higher FMS levels for Israel and Egypt. The ratio between economic and military remains constant at about 60:40. While foreign assistance is rising, the overall international affairs (150) budget function would decline by 10.4 percent (see Table II).

TABLE I.—FOREIGN ASSISTANCE SUMMARY TABLE

[Budget authority in millions of dollars]

	Fiscal year—		Percent change
	1985 enacted	1986 request	
Economic assistance:			
Economic support fund	3,841.0	4,024.0	4.8
Development assistance	2,282.4	2,131.9	−6.6
Public Law 480	1,355.0	1,307.0	−3.5
Multilateral development institutions	1,311.4	1,347.7	2.8
Peace Corps	127.9	125.0	−2.3
Refugees	325.5	337.7	3.7
Micronesia compact	0.0	299.3	0.0
Other	432.6	272.9	−36.9
Subfunction 151 receipts	(459.9)	(479.4)	4.2
Total economic	9,215.9	9,366.1	1.6
Military assistance:			
Foreign military sales	4,939.5	5,655.0	14.5
Military assistance program	805.1	949.4	17.9
International military education and training	56.2	65.6	16.7
Peacekeeping operations	44.0	37.0	−15.9
Anti-terrorism assistance	5.0	5.0	0.0
Guarantee reserve fund	109.0	0.0	−100.0
Subfunction 152 receipts	(93.2)	(99.2)	6.4
Total military	5,865.6	6,612.8	12.7
Grand total—Foreign assistance	15,081.5	15,978.9	6.0

[Note—Fiscal year 1986 ESF figure includes $1.2 billion for Israel.]

TABLE II.—BUDGET FUNCTION 150 SUMMARY TABLE

[BUDGET AUTHORITY IN MILLIONS OF DOLLARS]

	Fiscal year—		Percent change
	1985 enacted	1986 request	
Subfunction:			
151-Foreign economic and financial assistance	5,374.9	5,342.2	−0.6
152-International security assistance	9,706.6	10,636.8	9.6
153-Conduct of foreign affairs	2,256.6	2,469.8	9.4
154-Foreign information and exchange activities	896.6	1,117.8	24.7
155-International financial institutions	4,588.5	891.0	−80.6
Total function 150	22,823.2	20,457.6	−10.4

(Note—fiscal year 1986 152 subfunction figure includes $1.2 billion for Israel.)

The CHAIRMAN. If the Senator would yield.

Senator SARBANES. I see my time is up.

The CHAIRMAN. I will recognize the Senator from Washington to complete the round and then we will recess. Let me just ask, however, before we come to that point, do Senators wish to question these witnesses further after the break, which would commence about noon time? Does the Senator from Maryland have additional questions that he would like to raise at a session starting at about noon?

Senator SARBANES. Mr. Chairman, I have additional questions, but I do not know whether I will be able to be back at noon in order to question these witnesses, however. Maybe I will get a couple of minutes now before we break, after the Senator from Washington has proceeded.

The CHAIRMAN. Well, then we will attempt to do that.

The Senator from Washington is recognized.

Senator EVANS. Thank you, Mr. Chairman.

I would associate myself with the Senator from Alaska in my concern and puzzlement over the way in which we provide assistance to various nations, seemingly without a whole lot of consistency. You have offered to share with us in more detail some new policies, and I think that would be helpful.

I have one fundamental question. Given the choice, with no other political considerations, do you think it would be better to engage in these kinds of programs purely through a grant program and leave aside loan programs of any kind?

Mr. SCHNEIDER. Well, there are varying degrees of an ability to repay, and we think that if a country can afford to repay, if it is in our interest in the first place to assist the country, then we should offer it on a loan basis. But where the country has difficulty in coping with it, we would prefer to have a higher fraction of concessionality, either grant or lower interest rates.

In discussing the matter earlier with Senator Murkowski, I suggested it might be helpful to have something of a dialog on this basis, because the Congress has had difficulty in increasing the size of the grant program, although over the past 4 years the grant program has increased dramatically in percentage terms because it started from a relatively low base. But it might be suitable to revisit this matter in the course of your deliberations.

Senator EVANS. I understand the political nature of what has happened over the years. I presume then from your response that the only real rationale for offering money at lower rates, whether concessional or otherwise, to friends is to keep them friendly? If they have the resources to go out and borrow money, they do not necessarily have to borrow it from us, so why do we even offer that as a loan program?

Mr. SCHNEIDER. We do not offer loan programs or grant programs to any country that has the resources to provide for it. The only countries that we offer any kind of assistance to are those who are unable to provide for it. For example, within the NATO alliance we are helping the poorest countries because they do not have the resources to handle it.

For example, Portugal, Greece and Turkey are illustrations. They do not have the resources within their own economies to handle their NATO commitments. They are quite poor in relation to the other countries. It is not a question of keeping them friendly; it is giving them the wherewithal to build up their military forces to carry their weight in NATO, if that is the example being used, or to support our interests in other parts of the world.

Senator EVANS. I fail to see your rationale. If we are offering loans at market rates to countries presumably that by definition are not poor, then presumably they could get those loans at market rates from anybody else.

Mr. SCHNEIDER. In many cases they cannot get loans at market rates. For example, Korea would not be able to get additional loans because its commercial lending is at the limits the commercial banking system will provide. Yet the Koreans face a massive military threat, and they are working jointly with us.

The additional loans that we provide enable them to get access to the modern military equipment that enables them to carry out their commitments under the mutual defense agreement. So there is a case where the loans are crucial to Korea being able to implement its defense commitments.

Senator EVANS. I think Senator Murkowski has already pointed out some of the ultimate fallacy of that, basically that you end up with payments required for interest that just about equal the amount we are giving them.

Mr. SCHNEIDER. But their economy is growing fast enough for them to be able to sustain that debt service.

Senator EVANS. Let me move to another fundamental question, and that is the way in which we consistently attempt to determine the share or ratio of economic versus military assistance to the various countries.

Let us use the Philippines as a specific example, where we are faced with a real dilemma, a dilemma of a rising insurgency. The fundamental question is whether the insurgency is best put down by military assistance to the government or by sufficient economic assistance to simply satisfy the people who live in the country.

Mr. SCHNEIDER. I think the problem in the Philippines is a little larger than that. We have a basing agreement with the Philippines, and in support of the basing agreement the Philippines have certain military obligations associated with the protection of the facilities and being able themselves to put up a sufficiently robust defense to protect their own territory.

For this reason, we provide them with a modest level of military assistance under the terms we have earlier negotiated. But in the case of the Philippines this is not sufficient because of their economic circumstances, so we provide some economic assistance as well.

We are working more or less night and day with the Philippine Government, trying to improve both the political circumstances that Government is in and the economic circumstances it faces, which are desperate almost by any definition.

Senator EVANS. Do you feel there is a consistent policy that applies across the board from one country to another to decide the share of economic and military assistance that goes to each country? Could you provide a statement of your policy and criteria?

Mr. SCHNEIDER. Yes, Senator. I think this is one of the strengths of the development that has taken place in the way the executive branch has reformed the budget process in the past several years. There is now an integrated foreign assistance budget under review by the Secretary of State, which includes every type of assistance from military aid to aid to multilateral institutions. The Secretary makes a judgment as to the best mix of various kinds of assistance that can be offered to achieve our objectives in a particular country.

I would be glad to go over this structure in more detail, but I think the process has been very effective for determining the most appropriate mix to achieve our objectives in any given country.

Senator EVANS. Mr. Chairman, it seems to me that that may be, as the question that Senator Murkowski asked, a pretty fundamental and important base for us to have. It would be useful for those of us who are new members on the committee and maybe for some of those who have been on the committee for a long time, to review, in preparation for the kind of authorization we hope to get.

The CHAIRMAN. I would agree. I am hopeful that, given these questions, witnesses will be as helpful as they can be in getting this kind of information and rationale to all members swiftly.

I am going to recognize Senator Biden in a moment, who has a question. But at the same time, we are under some pressures, out of courtesy to our foreign guest, to move things on.

Let me suggest this, if I may. Senator Pell, would you be willing to preside, with the thought that in no circumstance would this hearing go beyond 11 o'clock? I think out of courtesy to our foreign guest we ought not be meeting while he is speaking. But if you would preside until that point, that might accommodate members who will want to continue with these witnesses.

In the event that we cannot exhaust our questions, we will then recommence the hearing, asking our witnesses to reappear at 12 o'clock, and proceed on with more questions to them and with our additional witness.

I am going to go to the floor presently for the greeting party. Thank you. And Senator Pell, would you recognize Senator Biden.

Senator PELL [presiding]. Thank you, Mr. Chairman.

The Senator from Delaware is recognized.

Senator BIDEN. Thank you, Mr. Chairman.

I have only one question. We are talking about very fundamental questions. Are you all going to have an aid request for Israel by the time we mark up?

Mr. SCHNEIDER. In the Secretary's testimony on Friday, he indicated that he supported the $1.2 billion that was recommended in the Budget Committee's mark for Israel. We are addressing the problem of getting the paperwork done on the budget amendment, and it is my personal hope that we would have the matter completed by the time the committee marks up.

In your absence, Senator Sarbanes raised the request for some formal expression of administration attitudes, and we will go to work on that.

Senator BIDEN. Well, what you are saying now is you expect that formal request to be $1.2 billion?

Mr. SCHNEIDER. Yes, sir.

Senator PELL. The Senator from Alaska.

Senator MURKOWSKI. Thank you very much, Mr. Chairman.

I did not mention it at the time, but the other inconsistency I find is the request for a more favorable repaying term, the extended repayment loan program, under the FMS market rate loans for several countries. This is basically several countries moving from what was the original determined repayment schedule to one that is more extended.

It includes a 10 years grace period and 20 years repayment on principal, which to me means a 30-year repayment program. Countries do not pay any principal the first 10 years. They start at the end of that 10 years with principal payments, and by the time the loans are paid off, 30 years has transpired.

Now, I notice Korea is added to that list this year. I fail to understand, with the strength of the Korean economy, the necessity of arbitrarily moving them to an extended repayment from what was an original 10-year repayment.

Mr. SCHNEIDER. Twelve.

You do ask a good question, Senator. The judgment made to request the extended payment terms for Korea reflected the fact that the general debt burden problem that Korea has and the fact that the character of the threat has become particularly severe for them. You will recall that several members of their cabinet were assassinated last year, and there seems to be more and more indication of pressure by North Koreans.

It was not practical to increase the overall level of assistance, but we proposed and said to try to facilitate their ability to cope with their debt burden while executing their commitments under the mutual security agreement.

[The following information was subsequently supplied for the record:]

CRITERIA FOR PROPOSING EXTENDED FMS CREDIT

The criteria are both economic and political. The primary economic determinant for selection of a country for extended repayment terms is a weak current economic performance versus improved future prospects. Politically, extended terms connote trust and favored status, both of which further our security assistance relationship. We have chosen 10/20 terms for the following countries for these reasons and because we believe that while they have serious short-term economic problems, their long-term prospects are sufficiently good that payments on these extended terms can be met and the extended terms will assist in the economic recovery of each country:

GREECE

Included in the Agreement on Defense and Economic Cooperation between the Government of the Hellenic Republic and the Government of the United States of America was the intention by the United States to make available such financing on terms particularly favorable to Greece.

KOREA

Korea spends some 6 percent of its GNP on defense. It could not spend a much greater percentage without jeopardizing the development of its civilian economy. These defense expenditures absorb money that could be used elsewhere to further the development of Korea's economy. In addition, Force modernization will require an expenditure of $9.1 billion over the next 5 years (almost half this amount will be spent in the United States.). FMS credits, while constituting only a small part of Korea's defense outlays, provide a margin that will greatly assist Korea in fulfilling its Force improvement goals, thereby narrowing the military imbalance with the North, while maintaining a healthy economy. Korea in FY 1984 spent more money or repayment of principal and interest on past FMS loans than it received in new credits. The net outflows from reserves through payment of principal and interest on past loans also contribute to balance of payments pressures on Korea. The more generous terms will ease some of these pressures during a time when, as indicated earlier, there is a pressing need to devote all available resources to upgrading and enhancing Korea's defense abilities. For these reasons, 10 years grace, 20 years repayment terms for Korea are amply justified.

PHILIPPINES

As a general matter of policy we consider the Philippines to be one of those countries for which 10/20 terms should be available should they request those terms. The Presidential "best efforts" letter, in fact, refers specifically to 10/20 terms. We do not, however, intend to provide credits on 10/20 terms in FY 1986, although we may wish to do so in future years. The Filipinos believe, and we agree, that concessional loans with 5/7 repayment terms are more advantageous for them in current economic circumstances than loans at Treasury rates with 10/20 terms, which ultimately cost much more in interest payments.

PORTUGAL

In 1984 Portugal met or exceeded most of its targets under an IMF standby program, but at the cost of a severe recession. In addition, the country is facing a major adjustment as it prepares to enter the European Community (EC). Specifically, 10/20 terms will help shift the FMS repayment burden to a period when Portugal's economic situation is likely to be better and more stable. Failure to grant 10/20 terms in FY 1986 also would provide very negative signals regarding the U.S. commitment to Portugal's military modernization as well as our sincerity in carrying out our "best efforts" assistance pledge.

SPAIN

Spain is spending 4-5 percent of its domestic budget (exceeding the 3 percent NATO defense spending target) in order to upgrade and modernize its conventional forces to NATO standards. At a time when the strengthening of conventional forces is increasingly vital to successful deterrence in Europe and when we are exhorting our allies to do more in this regard, we should assist Spain by providing more manageable repayment terms. Spain was granted the option of 10/20 repayment terms in FY 1985 in recognition of its need for more manageable repayment terms. Failure to grant the same terms in FY 1986 would provide very negative signals regarding the U.S. commitment to Spain's military modernization as well as our sincerity in carrying out our "best efforts" assistance pledge in the 1982 Agreement on Friendship, Defense, and Cooperation. A forthcoming U.S. posture on this and other defense issues will help ensure a favorable Spain decision regarding its future role in NATO and have a positive effect on our negotiations for renewal of the 1982 Agreement.

THAILAND

The Thai have initiated a badly needed and costly force modernization program which for the most part they have funded independently. Although we have helped through our security assistance program, our assistance has been mostly credit at market rates. The strong performance of the Thai economy up to 1983 (annual growth of 6-7 percent) enabled it to absorb these costs. But the burden of the modernization program has grown sharply in recent years as the economy has been buffeted by the international recession and steadily declining terms of trade for its main commodity exports. Thailand's debt burden increases at a worrisome rate. In 1976, the debt service ratio was 11 percent whereas by 1984 it had more than doubled. Because of these considerations we assured Prime Minister Prem during his April 1984 visit that we would seek increased concessionality for our security assistance. Current security and economic challenges to Thailand have reenforced our desire to fulfill that commitment.

TURKEY

Since the adoption of the economic stabilization program in 1980 the Turkish economy has undergone extraordinary structural changes and made significant progress toward long-term growth and stability. However, there are still major problems to overcome. The free-market, private capital re-orientation of the Turkish economy which began in 1980 went into high gear with the installation of Prime Minister Ozal's government last year. The Turks have re-established a good credit rating with the commercial banks, are able to pay their foreign debt on time and in 1984 achieved a healthy 5.6 percent growth rate. In the coming year the government must contend with an inflation rate of over 50 percent and large budget and balance of payments deficits without reducing the rate of economic growth and exacerbating an already high unemployment rate. The economic assistance (including extended loan repayment terms that we and other countries extend to Turkey provides a cushion the Turkish Government needs to help cope with these problems and to maintain political stability until the full effect of its economic reforms take hold.

Senator MURKOWSKI. While I am sure, Mr. Secretary, that rationale has an application, the question of the propriety of this concept being extended to Korea in the manner in which it is, which is moving $220 million in market rate loans to extended repayment, I just find totally unrealistic in the sense, again, that in 1985 and 1986 half the amount that we are going to loan them is going to come back as interest on the accumulated debt.

And now we are saying, you do not have to make any principal payments for 10 years, you start in the 10th year. And considering the economic realities in our country, when we are cutting virtually every program, the Senate Budget Committee has come down with some very severe cuts, to offer extensions to countries that are well established—and there is no one more sympathic as to the needs of Korea, more proud of the accomplishments that Korea has made—I just question the propriety of this method of rather indiscriminate application of unsound financial principles helter-skelter across the broad spectrum.

I am not moving outside my immediate area of responsibility as chairman of the East Asian Pacific and Affairs Subcommittee. But I do see these inconsistencies throughout our foreign assistance program. I think, with all due respect, Mr. Chairman, we need to establish some fundamental policy.

And I think it would assist you, Mr. Secretary, to have some policy guidelines. That is the responsibility of the committee and the responsibility of the Congress. With all due respect, I think it is time that this committee took a very serious look at a number of issues involved in this process, including (a) the propriety of concessionary interest rates, (b) the propriety of extended loan repayment schedules, and (c) the realities associated with those countries that have already accumulated such a significant debt that most or a good portion of what we give them each year, with like dollars out of a different pocket, in effect, comes back to repay the interest on the debt, with no reduction in the principal.

You know, it is easier to repay under these programs by extending them under the concept that you have inflation each year, so you are repaying with cheaper dollars. And that is the logical way to go if indeed the terms are extended. Well, we are extending these terms.

Again, I am not being critical in the sense of what you are attempting to do. You are attempting to be responsive to the needs of this country. But by the same token, I think this committee is shirking its responsibility in not having some clearcut policies to guide you.

I am also most sympathetic to the reality that, when you are requested by Korea, the Philippines, or Portugal to extend the interest rates, there are a half a dozen more countries out there who will say, why did not the United States treat us the same?

And you have to make a value judgments, and these are very difficult. Is it up to us to judge the credibility of a Nation's ability to pay back? I do not think that is our responsibility. We are interested in establishing assistance for these countries. We are interested in having them purchase equipment and military hardware from us. But by the same token, you cannot buy respect.

We are not giving you realistic guidelines, I think. And we are continuing to be responsive to the requests for spending levels on the basis of something that you and I have discussed. But you have never had, because we have not extended it, some significant guidelines to assist you.

Mr. Chairman, I have several other questions. Time does not permit me to go into them.

Senator **Pell**. Without objection, the record will stay open for the submission of written questions by any member of the committee.

Senator **Murkowski**. I appreciate that, Mr. Chairman.

In particular, Senator Sarbanes touched on the question of the guarantee reserve fund, the guarantee reserve account. The inability of Congress to have oversight on this change is one that I think is most significant, because it marks a departure from congressional oversight which is our responsibility.

I would like to get into that at some appropriate time. Please understand, Mr. Chairman, that it is not my intent to hold up the process. But it is my intent to strive for some policy decisions so that we will understand how this process occurs and under what guidelines it will occur in the future.

Thank you, Mr. Chairman.

Senator **Pell**. Thank you.

In answer to an earlier question of mine, I understood that the administration will be sending up a table with some detailed criteria?

Mr. **Schneider**. That is correct.

Senator **Pell**. As to the policies and reasons for concessional rates?

Mr. **Schneider**. That is correct, Senator. We will send up an explanation.

Senator **Pell**. Perhaps that could be enlarged to include some of the points raised by the Senator from Alaska.

Mr. **Schneider**. Yes, we will address them. Thank you, Mr. Chairman.

Senator **Pell**. The Senator from Maryland is recognized.

Senator **Sarbanes**. Secretary Schneider, in view of the tight time constraints I am going to ask you for some information, and I think we need it by the end of the week. We certainly need it before the markup.

First of all, I would like an elaboration of what is proposed to be covered under section 112(b), which seems to be very broad language: "No provision of any law shall be construed to prohibit the sale or licensing for export of items which are essential to the safe operation of any defense article. I would like to have that spelled out, exactly what that is intended to cover.

Now, in section 113, the special defense acquisition fund. Would you please provide the committee with a detailed list in summary form of the equipment provided, of the costs related to the same, and which countries have received it since the special defense acquisition fund began in 1982?

[The material referred to follows:]

The provisions of Section 112 are directed at situations in which certain country-specific restrictions in U.S. legislation could create a life-threatening situation. Because of these restrictions a country would not be able to obtain certain items, manufactured only in the United States, necessary for the safe operation of previously supplied U.S. origin defense articles. The specific example we have in mind is that of the F-5 and A-37 aircraft supplied to Chile prior to 1976 which cannot be supplied with replacement ejection seat cartridges. Without such replacements operation of these aircraft is exceedingly dangerous. This section would permit the sale and licensing of equipment, such as the ejection seat cartridges, which is essential to the safe operation of previously-supplied equipment, and thus would eliminate unnecessary life threatening situations.

31 DEC 1984

FY 1984 SPECIAL DEFENSE ACQUISITION FUND (SDAF) ANNUAL REPORT

The authority to obligate $225 million (vice the $325 million requested) credited to the SDAF was provided upon passage of P.L. 98-151, making continuing appropriations for FY 1984. Consequently, the following SDAF obligations were entered into during FY 1984.

ITEM NOMENCLATURE	QUANTITY	PROGRAM VALUE ($ MILLIONS)
Anti-ship missile, Harpoon Long-lead GCS.	-	10.0
Howitzers, M198 Towed 155mm with initial minimum support and	54	20.9
M2A2 Aiming Circles.	420	.8
Ammunition, 155mm Artillery		
M485A2 proj. illum. (D505)	10,000	3.4
M825 proj. smk. (D528)	1,000	.5
M119A2 prop. charge (D533)	20,361	2.0
M4A2 prop. charge (D541)	45,451	3.5
M3A1 prop. charge (D540)	52,201	2.9
Ammunition, 105mm Tank		
C524 cartridge APFSDS-T	11,000	6.3
C520 cartridge APDS-T-TP	1,300	.3
C511 cartridge HEAT-TO-T	500	.1
Ammunition, Machine Gun		
A576 Cartridge Cal .50	2,000,000	3.1
A557 " " "	500,000	.7
A589 " " "	300,000	.4
A131 Cartridge 7.62mm.	1,000,000	.3
Ammo Loaders, for GPU-5A 30mm Gunpods, with spares.	2	.3
Communications Security Equipment with initial minimum support for each item.	-	9.9
Machine Guns		
Cal .50 M2 HB Flex Grd., with support	1,800	11.8
Cal 7.62mm M60, with support.	2,000	6.0

ITEM NOMENCLATURE	QUANTITY	PROGRAM VALUE ($ MILLIONS)
MANPADS, Basic STINGER SAM FIM-92A (727 Missile rounds, 393 weapon rounds with grip stocks) with support.	1,120	51.7
ATGM, TOW 2 GM HEAT BGM 71-D	2,130	17.1
Launcher	35	1.6
Launcher upgrade modification kit components, for TOW II (mix determined by the Army).	167	2.4
TOW field test set	4	.8
Training set M70E2	10	.1
Initial support.	-	1.3
CVC Helmets.	5,000	1.3
APC, M113A2 with support	75	11.0
AN/TSP-70 support items	-	3.3
AN/PRC-77 family of radios with support items	2,000	2.7
AN/VRC-12 family of Radios (support only)	-	1.4
CBU-87 combined effects munitions	150	6.0
M29A1 81mm mortar with support items and 1,200 rounds of C226 illuminating ammunition	200	1.9
M151A2 Jeeps	621	9.5
5.56mm rifle ammunition	35,000,000	4.9
Prior year requirements not separately identified		7.0

Total FY 1984 -- 207.2

Total obligations on prior year programs---------------------------- 217.0

Total SDAF Program Obligations, as of 30 September 1984------------- 424.2

Based on preliminary planning the following items are candidates for procurement in FY 1985:

- Tanks, associated radios, sights and ammunition
- Infantry/Cavalry Fighting Vehicles
- 155mm self-propelled and towed howitzers, associated ammunition, trucks, and heavy machine guns
- Anti-tank guided missiles, rockets, and projectiles
- Air-to-air missiles and ordnance
- Tactical radios and communications security equipment
- Surface-to-air missiles and gun-systems
- Air-to-surface munitions and missiles
- Utility and attack helicopters
- Multiple-launch rocket systems with rockets
- Tactical radars
- Infantry equipment and ordnance
- Improved TOW vehicles
- Anti-ship/Anti-radiation missiles
- Aircraft long-lead support
- Military vehicles
- Ammunition of all types

While these are candidates at the present time, we will select from this list as circumstances dictate.

Sales agreements concluded in FY 1984 (shown in the Chart that follows) demonstrate the SDAF's use supporting the objectives of Congress in authorizing the fund. The delivery of radios, 155mm ammunition, M198 howitzers, STINGER missiles, and 5.56mm ammunition have been completed. By relying upon SDAF assets to meet delivery dates to friendly countries or to payback U.S. stocks in the shorter than normal procurement lead times, the SDAF has supported security assistance objectives and minimized the adverse impact from diversion of U.S. equipment. Other items to be shipped in calendar year 1985 are being delivered ahead of normal FMS procurement lead times to meet the U.S. objective of supplying friendly nations with needed equipment where it is important to do so in shorter than normal leadtime. These items include radios, communication security equipment, and PHALANX gun systems. The delivery (currently in process) of I-TOW missiles and STINGER missile training sets was welcomed by the receiving countries and served to enhance foreign confidence in the U.S. ability to respond to other nations security requirements. In all instances the U.S. and foreign governments benefitted from lower unit prices because of the SDAF investment in additional quantities of items. We currently have SDAF sales in progress with a total value of approximately $70 million.

For several items U.S. defense production was significantly enhanced by SDAF procurements during FY 1984 because some acquisitions were large enough to have a major impact. Production lines were extended, higher levels of production were achieved, and favorable add-on contracts were established for these items from current and projected buys/production. This was especially evident in the radio, Basic STINGER, CVC helmet, CBU-87, Jeep, and howitzer procurements where higher production volume resulted in much lower pricing.

FY 1984 SDAF Sales

(Direct Sales to Countries)

ITEM NOMENCLATURE	QUANTITY	SDAF $ VALUE
AN/PRC-77 Radios	300	290,901
PHALANX, MK-15 CIWS w/support	4	13,226,956
M203 Prop Charge for 155mm	3,300	698,445
I-TOW Missile	1,200	6,493,979
STINGER Training Sets	2	122,739
M198 Howitzer w/support	6	2,247,861
M4A2 Prop. Charge for 155mm	5,000	404,450
M119A2 Prop. Charge for 155mm	5,000	516,400
M107 Projectile, HE, for 155mm	7,500	984,000
AN/PRC-77 Radios	525	509,076
Communications Security Equip	-	1,374,157
Total Direct Sales to Countries		26,868,964

(Payback Decisions to Replace Services

Diversions/Withdrawals)

5.56mm Rifle ammo. (Army)	6.5M	1,209,000
STINGER Missile Systems (Army)	400	28,600,000
Total Payback Sales		$29,809,000

SDAF procurement of items which are in high demand by FMS customers, in short supply, or which have long production lead times will reduce the need for diversions of US equipment, thereby improving the readiness of US forces. For these items the potential adverse impacts on U.S. force readiness, of early deliveries to FMS customers, will be eliminated for the quantities we have under SDAF procurement. For example, the SDAF has already had a significant positive impact on some of the items we have been diverting. The SDAF procurements of 155mm ammo, 5.56mm ammo, M198 howitzers, tactical radios, STINGERS, machine guns, TOW 2, and jeeps are large enough to meet the continuing and increased demand for these items. For additional information on the impact of FY 1984 SDAF operations on Defense production and U.S. readiness, see the classified information papers attached.

In addition, if a foreign buyer has not been identified for an SDAF item, the law permits the appropriate military department to use the item on a temporary basis against its approved acquisition objectives, while paying the operation and maintenance costs associated with that use. If a foreign sale of the item is approved later, the military department will pay the cost of restoring or replacing the item. (In a crisis situation, should the Secretary of Defense determine that the needs of US forces are more urgent than those of the anticipated foreign recipients, he could decide to transfer the items to the military departments, on a reimbursable basis.)

FY 1983 SPECIAL DEFENSE ACQUISITION FUND (SDAF) ANNUAL REPORT

The authority to obligate $125 million (vice the $475 million requested) credited to the SDAF was provided upon passage of P.L. 97-377, the second FY 1983 continuing resolution. Consequently, the following SDAF obligations were entered into during FY 1983.

ITEM NOMENCLATURE	TOTAL QUANTITY	AMOUNT OBLIGATED IN FY 1983 ($THOUSANDS)
Radios, AN/VRC-12 (43-49) family of radio sets with support items	1,424	7,882
Radios, AN/PRC-77, AN/VRC-64, AN/GRC-160 family of radio sets with support items	1,810	3,409
Howitzers, M198 Towed 155mm with support items	54	18,261
Ammunition, 155mm Mix with components	87,594	30,620
MANPADs, Basic STINGER FIM-92A with components and support items	600	29,263
Gun Pods, GPU-5A 30mm with ammunition	20	8,438
Chaff Round, Mark 183 SRBOC	3,000	2,806
CIWS, Mark 15 PHALANX with ammunition and support items	4	13,800
Ammunition, 5.56mm for rifles	21,050,000	4,000
Total New Program Obligations		$118,479
Total Obligated in FY83 on Previous Programs		$ 4,415
Total Obligations During FY83		$122,894
Total Obligations for FY82 Programs		$ 98,950
Total SDAF Program Obligations, as of 30 September 1983		$221,844

Based on the preliminary planning completed up to this time, the following items are candidates for procurement in FY 1984:

Tanks associated radios, sights and ammunition
Infantry/Cavalry Fighting Vehicles
155mm self-propelled and towed howitzers, associated ammunition, trucks, and heavy machine guns
Anti-tank guided missiles and rockets
Air-to-air missiles and ordnance
Tactical radios and communications security equipment
Surface-to-air missiles and gun-systems
Air-to-surface munitions and missiles
Utility and attack helicopters
Multiple Launch Rocket Systems with rockets
Tactical radars
Infantry equipment and ordnance
Improved TOW vehicles
Anti-ship/Anti-radiation missiles
Aircraft long-lead support
Military vehicles

While these are candidates at the present time, we would change this list as circumstances dictate.

During FY 1983, twenty VRC-12 vehicle radios were sold to Spain. This provided Spain with an accelerated delivery and thus an enhanced capability. Sales of SDAF items were limited during FY 1983 because most of the items that were placed on contract in late FY 1982 were still in the early stages of production during most of FY 1983. As the program matures we anticipate a significant increase in SDAF sales. In the first quarter of FY 1983, we already have four SDAF sales in various stages of negotiation.

For several items U.S. Defense production was significantly enhanced by SDAF procurements during FY 1983 because these acquisitions were large enough to have a major impact. Production lines were extended, higher levels of production were achieved, and favorable add-on contracts were established for these items from current production and planned procurements. This was especially evident in the radio, STINGER, and howitzer procurements where higher production volume resulted in much lower pricing.

The readiness of U.S. Armed Forces will be enhanced through procurement of these items because they have long production lead times, are in high demand by FMS customers, and are in short supply in U.S. inventories. For these items the potential adverse impacts on U.S. force readiness, of early deliveries to FMS customers, will be eliminated for the quantities we have under SDAF procurement. For example, in the near future the SDAF is likely to have a significant positive impact on some of the items we have been diverting to Lebanon and El Salvador. The SDAF procurements of 155mm ammo, 5.56mm ammo, M198 howitzers, and tactical radios are large enough to meet the continuing and increased demand for these items. For additional information on the impact of FY 1983 SDAF operations on Defense production and U.S. readiness, see the classified information papers attached.

FY 1982 SPECIAL DEFENSE ACQUISITION FUND (SDAF) ANNUAL REPORT

The authority to obligate $125 million (vice the $300 million requested) credited to the SDAF was provided upon passage of PL97-257, the FY 1982 Supplemental Appropriations Act. On 17 September 1982 the Secretary of Defense approved a $125 million FY 1982 SDAF procurement plan. Consequently, the following SDAF obligations were entered into during FY 1982.

Item Nomenclature	Total Quantity	Amount Obligated In FY82$s ($ Millions)	Unobligated Balance ($ Millions)
Tank, M60A3 Package (Including: 'Radio, VRC-12; Search Light, AN/VSS-34; Sight-AN/VSG-2; 7.62mm MG, M260; 50 cal MG, M85; Ammo. 105mm Mix, basic load plus resupply; concurrent spare parts, combat support items, tool sets, special tools, and miscellaneous shop equipment).	54	82.4	15.0
AGM-65B, TV MAVERICK Including Support	120	5.9	.3
ATGM, I-TOW Missiles Including support	1,200	7.1	.5
Radar, AN/TPS-70, with communications equipment and shelters	2	9.6	-
Initial spares (two lots)	-	4.2	-
Total FY 1982 Obligated Program		$109.2	
*Total Unobligated Balance			$15.8

*During the short period before the end of FY82 these funds could not be placed on contracts and formally obligated. Of the total unobligated balance, approximately $13-15 million must be obligated in FY83-84 for unavoidable costs and contingent liabilities if these programs are to be completed.

Based on the preliminary planning completed up to this time, the following items are candidates for procurement in FY 1983:

Tanks, associated radios, sights and ammunition
Infantry/Cavalry Fighting Vehicles
155mm self-propelled and towed howitzers, associated ammunition, trucks, and heavy machine guns
Anti-tank guided missiles and rockets
Air-to-Air missiles
Tactical radios
Cannon-launched guided projectiles
Surface-to-air missiles and gun-systems
Air-to-ground munitions and missiles
Utility and atttack helicopters
Multiple Launch Rocket Systems with rockets
Tactical radars
Improved TOW Vehicles
Anti-Ship/Anti-radiation missiles

While these are candidates at the present time, we would change this list as circumstances dictate.

No defense articles or services acquired under the SDAF were transferred to foreign countries or international organizations during FY 1982.

U.S. defense production was not significantly altered by SDAF procurements because these acquisitions were not large enough to have a major impact. However, the M60A3 production line was extended two months, a higher volume of I-TOW missile production will be achieved, and favorable add on contracts were established for Maverick missiles and TPS-70 radars from current buys/ production.

The readiness of U.S. Armed Forces will be enhanced through procurement of these items which are in high demand by FMS customers, are in short supply, and/or have long production lead times. For these quanities, the potential adverse impacts on U.S. force readiness of early deliveries to FMS customers will be eliminated.

For additional information on the impact of FY 1982 SDAF operations on defense production and U.S. military readiness see the classified information papers attached.

Senator SARBANES. I want to ask one quick question about the operation of that fund. As I understand it, the Defense Department provides material out of its inventory and then subsequently replenishes it, is that correct?

General GAST. No, sir. The objective of the SDAF, which was initiated in 1982, was to enable us to use funds which otherwise went to general receipts within the Treasury, including nonrecurring cost recoveries, to purchase equipment in advance so as to avoid taking the material and items out of our inventory. And then, when that is sold to a particular country, the funds come back into that fund for repurchasing of other material.

Senator SARBANES. Well now, that is the purpose of it. But this language that you have on pages 10 and 11 of the bill that discusses less advanced and more advanced weapons systems, how is that intended to work?

General GAST. Let me give you an example, Senator. We are primarily interested in missiles. Today the AIM-9L, which is an intercept missile, air to air missile such as on the F-16, is no longer in production. We now have the AIM-9M, which is a more advanced system. We are not willing to sell the AIM-9M to many nations at all because of its advanced technology.

We do not have enough of the AIM-9L or M. When we are required to sell or choose to sell an advanced missile to a country, we take one that is no longer in production, the AIM-9L. This proviso would enable us to buy AIM-9M's to place in Service inventories, so that when we sell a missile we would provide the AIM-9L from stocks.

Senator SARBANES. Well, if we could have an elaboration of the instances in which that additional authority that is being requested in this legislation, we would appreciate it.

General GAST. Yes, sir. I might add that that was one of the GAO recommendations, but we will provide that.

[The material referred to follows:]

SDAF PROCUREMENT FOR PAYBACK PROPOSAL CLARIFICATION

The "procurement for payback" procedures (also called replacement-in-kind) is an SDAF program proposal designed to speed payback to the U.S. Service for loss of an inventory item. Its purpose is to facilitate the sale of high-demand U.S. stock items to an FMS customer while minimizing or eliminating the possible adverse impact on U.S. force readiness. For example, under this procedure the SDAF would have the flexibility to procure a first-line U.S. system for the purpose of using it as a payback to the U.S. inventory for replacement of the sale of a similar or like item; or, sell the first-line item directly to an approved FMS customer, such as a NATO country, subject to the Arms Export Control Act and other laws, including Congressional notification if specified thresholds are reached.

The desirability for the SDAF to use this type of flexible procurement for payback or direct sale is becoming essential. Without it the SDAF will not be able to procure some higher technology weapons systems still in production and likely to be sold eventually to foreign customers. Without the payback option, an increasing number of weapons types will be precluded from SDAF procurement as older, somewhat lower technology systems go totally out of production in favor of the most advanced version. This is an option we believe would be very rarely used, perhaps only for missiles, but we agree with the GAO that it is needed. An illustrative list of the instances in which this additional procurement authority might be used could include AIM–9M, AIM–7M, STINGER Post, IIR Maverick, etc. It is not practical, nor is there an intent, to use "procurement for payback" procedures for major equipment such as aircraft, tanks, self-propelled artillery, and similar items. The only intended application relates to families of missiles.

For example, the only air-to-air heat-seeking missile in full production today is the AIM-9M, yet, a great part of the FMS demand for AIM-9s is for the older AIM-9P3 or AIM-9L missiles. The SDAF has the ability to buy AIM-9Ms in anticipation of selling the missiles directly to an approved FMS customer within the procurement lead time of the AIM-9Ms, but needs the authority to procure AIM-9Ms for the purpose of selling them to the Air Force or Navy as a payback for the release of AIM-9P3 or AIM-9L missiles from inventory.

However, it should be understood that these payback programs will not be used to "barter" between the SDAF and the service inventories. The exchanges must be based upon actual monetary exchange. Also the SDAF will not be used to build a long-term stockpile of defense equipment. Therefore, a practical application of this concept would be when advanced equipment under SDAF procurement is ready for delivery without a foreign buyer (for the "older" item or the "new" one) the appropriate Service may then buy the new equipment from SDAF assets to meet a current inventory shortfall. The Service procurement of the SDAF asset would be substituted for already approved Service acquisition levels. Planned Service procurements in the out years would be reduced by the quantity of the SDAF procurement. Under this arrangement, the SDAF would not take into its inventory the Service's older item when the new item comes off the production line; however, should the older item be needed for immediate overseas delivery then it could be released in the quantities made available from SDAF procurement of the newer item. Thus payback programs would not become inventory exchange programs. SDAF transfers of all types would be dollar exchanges. In this program the SDAF is always buying lead time while speeding deliveries to FMS customers or paybacks to the Services. The GAO supports this idea and has proposed a legislative amendment of their own to the Arms Export Control Act to allow SDAF to purchase advanced systems not releasable to foreign countries, i.e., the procurement for payback concept, especially where the older system is no longer in production.

Senator **Sarbanes**. I would like an elaboration of section 118, if we could have that, of what you intend to do on the security assistance organizations, what authorities you are seeking with respect to the number of personnel involved, and the countries involved.

My reading of it is that it is a rather sweeping request compared to existing authority. If that is not the case, we would like to know.

General **Gast**. Very briefly, I will provide that. There are five countries that we are adding to. I would also point out that we are very mindful of the cost of doing this, because it would come out of our own personnel for our armed services.

Even with this request, we would be making in fiscal year 1986 on overall reduction of 20 people that we have assigned to security assistance.

[The material referred to follows:]

The six additional Security Assistance Organizations for which the authority to assign more than six U.S. military has been requested and the number of military involved are shown below:

Country	*Number of military*
Venezuela	9
El Salvador	13
Tunisia	7
Pakistan	11
Honduras	11
Sudan	7

Section 515(c)(2) of the Foreign Assistance Act provides in such cases that the total number of members of the Armed Forces assigned under this section to a foreign country in a fiscal year may not exceed the number justified to Congress for that country in the congressional presentation materials for that fiscal year, unless the Committee on Foreign Relations of the Senate and the Committee on Foreign Affairs of the House of Representatives are notified 30 days in advance of the introduction of the additional military personnel.

Senator **Sarbanes**. Are there some countries being added as to which the limits would no longer apply?

General GAST. Yes, sir, there are six countries.

Senator SARBANES. Which countries are those?

General GAST. Just a moment, please.

[Pause.]

General GAST. Those countries that we would be adding—and we have already previously notified on five of the six—are El Salvador, Honduras, Pakistan, Sudan, Tunisia, and Venezuela.

Senator SARBANES. So that the limits would be lifted with respect to those?

General GAST. It would be over six, yes, sir.

Senator SARBANES. And under what?

General GAST. For each case here, the total that we would add to that over the six for those six countries is 21 personnel. We have also taken reductions on our own of other countries where we have completed programs and they are no longer needed.

Senator SARBANES. My question is, if you go over six is there still a limit that applies statutorily?

General GAST. Well, whatever is in the congressional presentation document applies. We would not go over what is in the congressional presentation document each year. We submit to the Congress within the CPD all information.

Senator SARBANES. But the current limits are statutory, are they not?

General GAST. That is affirmative, unless we provide notification.

Senator SARBANES. Would you still have a statutory limit or would you remove it altogether?

General GAST. The limit of six, for those five countries, would be lifted, but the statutory limit would not. Also, by the same fact, we would not go above those numbers in the congressional presentation document for any country.

Senator SARBANES. I am not trying to make a point. I just want to get an answer to my question. Currently those countries have a statutory limit.

General GAST. That is affirmative.

Senator SARBANES. Which is at six, as I understand it.

General GAST. Yes.

Senator SARBANES. You are proposing to permit going above the six.

General GAST. Affirmative, sir.

Senator SARBANES. But you would then have a different statutory limit, a somewhat higher figure, or would you eliminate the statutory limit altogether?

General GAST. The limit of six would be eliminated, but we would still be statutorily limited by the CPD.

Senator SARBANES. Eliminated?

General GAST. There are other constraints to the administration, though, on assigning people, as I indicated. There are 12 countries already, you know, sir, for which we are authorized to had above 6.

Senator SARBANES. Secretary Schneider, could I have a definition of "investigative and enforcement capabilities," which you propose to provide a waiver with respect to prohibition on police training?

Mr. SCHNEIDER. I will provide that for the record, Senator.

[The material referred to follows:]

While the newness of the initiative makes it impossible to identify in advance all possible specific programs which we hope it might eventually encompass, I can give you some general indications of the kinds of things we aim to accomplish under the rubric of "investigative and enforcement training." First, these terms must be understood within the criminal justice system of a civil law—as opposed to common law—society as that is the system through Latin America. In the civil law tradition, the investigative work necessary for the successful prosecution of criminal cases—associated in the Anglo-Saxon tradition with the police and prosecutorial function within the executive branch of government—is considered a responsibility of the courts. Auxiliary organs are found within or available to the courts to establish the relevant facts in particular cases before them. Depending upon the country, some of these auxiliary ograns may have the full range of law enforcement authorities associated with the police function, while others would be more specialized bodies dealing with forensic medicine, criminal identification and other crime-lab services.

As a general rule, such "investigative and enforcement" support for Latin American judicial systems is seriously deficient, with one practical consequence being an over-emphasis on confessions as evidence of guilt in criminal proceedings. The Executive Branch strongly believes that assistance to help improve investigative capabilities is essential to an effective program to strengthen the administration of justice. To effectively improve the administration of justice, the entire system must be strengthened. A judge, no matter how willing and well trained, cannot impart justice if there is not adequate investigation of the crime, collection and analysis of evidence, presentation of the case by the prosecutor, defense of the accused, and protection from intimidation of all those who participate in the judicial process.

We would like, therefore, to help make available to courts in the region the benefit of modern criminological techniques through appropriate training of personnel of auxiliary bodies such as those described. The focus of our effort in the administration of justice initiative is on the courts—and those investigatory and enforcement bodies which function as officers of the courts in each individual country. Because of differences between countries, it is not feasible to describe the possible recipients of such training with any greater specificity than the terms proposed in the legislation. We feel strongly that definitional flexibility is required in order to respond to particular training needs which may be identified throughout the region which would serve the objective of improving the performance of courts in the disposition of criminal cases. I would remind you that under the administration's proposal any training programs under this section which would otherwise be subject to the prohibition on assistance for law enforcement activities (Section 660 of the FAA) are subject to the regular Congressional notification process.

Senator SARBANES. That is section 533 on page 29 of the bill.

Thank you, Mr. Chairman.

Senator PELL. Gentlemen, thank you very much. As you know, we need these answers as quickly as possible.

Mr. SCHNEIDER. We will get them in a timely manner for your markup.

Senator PELL. In accordance with the wishes of the Chairman, the committee is recessed.

[Whereupon, at 11 a.m., the committee recessed, to reconvene at 12:05 p.m. the same day.]

AFTERNOON SESSION

The Chairman [presiding]. We will now recommence this hearing of the Senate Foreign Relations Committee.

We appreciate the cooperation of witnesses, Senators, staff, and our guests, and their understanding of our unusual schedule this morning. As most of you know, we have been graced by a visit of the President of the Argentine Republic, Mr. Alfonsin. He has just addressed a joint session of the Congress. As we announced prior to recessing for President Alfonsin's address, we will now recommence our hearing.

This morning we heard from William Schneider, Jr., the Under Secretary of State for Security Assistance, and Lieutenant General Philip Gast, Director of the Defense Security Assistance Agency. The questions to these witnesses were completed before our recess.

The committee will now hear from the Honorable M. Peter McPherson, Administrator of the Agency for International Development. He has been before our committee frequently. Peter, it is good to greet you again today.

If you will commence your testimony, either in summary form or however else you would like to put the material before the Committee, we can assure you that the written statement you have submitted will be a part of the record of the hearing.

STATEMENT OF HON. M. PETER McPHERSON, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT, AND ACTING DIRECTOR, INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

Mr. McPHERSON. Thank you, Mr. Chairman.

First of all, let me say that we appreciate very much the leadership you have provided, in particular with respect to the African drought situation, and we appreciate the movement on the authorization of the nonfood aspects of this program yesterday afternoon. Thank you.

Let me be very brief, indicating, as you said, that I have a formal statement to put into the record. First, I will make a few comments about the drought in Africa since I know that you have been intensely interested in this. I believe in fact that the United States is taking a leadership role, which is widely appreciated throughout the world, in Africa as well as the rest of the world.

Our 50 percent challenge, if you will, the commitment to provide 50 percent of the identified food requirements to alleviate the famine in the drought-striken regions in Africa is indeed producing results.

I also have a couple of comments about the long term, because we must focus on the long term as well as this immediate disaster. I believe firmly that if we can continue to encourage African countries to adopt economic policies, mainly farm price policies, which will encourage production rather than discourage it, that this will be a significant contribution. This in fact is happening in several countries, and increased production has followed.

I furthermore believe that a green revolution of sorts can take place in Africa in the next decade or two. We are already seeing sorghum in the Sahel and in Sudan, cow peas in West Africa, and other crops that have the potential, we think, of significantly augmenting per capita food production in Africa. We need to continue to put the research dollars in to do that.

I could go through in greater length here, but I will not take your time now. My point is, yes, we need to deal with this disaster and also we need to—and we think we have a program—to make a contribution to dealing with drought in the long term in Africa.

There are a couple of other regional concerns. We have before the Congress a substantial economic assistance program for Central America, one which we think is important and indeed making progress. In the last few years, the GNP of these countries has dropped dramatically, but in the last year particularly, there has been real growth: Costa Rica, up 3 percent and El Salvador, up 1.5 percent. In short, there has been a degree of stabilization and we hope that in the years ahead there will be more growth. In other words we think that our program is beginning to really work.

Let me read to you the text of the communication that was sent to me by President Duarte of El Salvador, I just received today that I think is really to the point:

"I want to communicate to you how important the assistance we receive from the United States has been," says President Duarte.

> The AID program in El Salvador, especially the balance of payments assistance, is vital to maintaining the Salvadoran economy, the financial viability of my Government, the process of democratic consolidation in El Salvador, and our continuing efforts to seek peace through dialog process. I appreciate your interest in El Salvador, expressed to me personally when you were in El Salvador in December.

In short, we feel strongly that what we are doing in Central America and El Salvador, specifically, is important to President Duarte and that we are making some real progress.

A last country point I might make is that in the 4 years that I have been Administrator probably one of the more frustrating programs has been the Egyptian program, both because of its huge size as well as the fact that there are a number of economic policy questions that we need to grapple with.

I think today that I can report with real confidence that the aid program has some focus, has some visibility, and is actually doing some very concrete things for the Egyptian people. By the time the electrical power generating facilities are constructed that we now have underway, we will, Mr. Chairman, have constructed more generating facility power than the Aswan Dam produces. We have a huge sewer and water program for Cairo and other areas. It does not sound very glamorous, but it is of enormous value and appreciated by the Egyptian people, as well as other programs which are less costly and less dramatic in some ways, but very concretely valuable.

In addition, there has been some progress by the Egyptians on the economic front. It is not as fast as we would like and we keep on talking to them about issues preventing greater progress.

But I contrast what I hear in Cairo today from President Mubarak and his cabinet—I remember my first meeting with President Sadat shortly after becoming Administrator, and he frankly did not seem as interested in these issues and certainly not as focused or as concerned with grappling about them as President Mubarak does.

With those introductory comments, Mr. Chairman, it is good to be before you again. Thank you for your time and interest. I appreciate any questions that you might have.

[Mr. McPherson's prepared statement follows:]

STATEMENT OF
M. PETER MCPHERSON
ACTING DIRECTOR
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AND
ADMINISTRATOR
AGENCY FOR INTERNATIONAL DEVELOPMENT
BEFORE THE
SENATE FOREIGN RELATIONS COMMITTEE

March 20, 1985

Mr. Chairman, it is a pleasure to appear before you to present the Administration's FY 1986 proposed program for foreign economic assistance.

This is a difficult and challenging year -- from a budgetary standpoint -- for the development of a foreign assistance program which meets our foreign policy objectives within the tight fiscal constraints facing us. The Executive Branch and Congress are together confronted with the need to sharply restrain spending in order to gain better control of the Federal deficit and to keep the U.S. economic recovery on a sound footing.

A healthy American economy is important for reasons of foreign policy as well as domestic considerations. Our success in maintaining the strength of our economy is important to developing countries -- which depend on the United States as an important trading partner.

Notwithstanding the need to restrain the growth of the Federal budget, requirements for resources to pursue foreign policy objectives continue to increase. Our challenge is to find a way to meet these growing demands, and respond to new opportunities, with limited foreign assistance resources. We believe the FY 1986 foreign assistance request we bring before you does that. We have carefully focused our program on the highest priority foreign policy objectives.

In the face of proposed cut-backs in many domestic programs, it is more important than ever that we justify to the American people the reasons why a strong foreign assistance program is crucial to the national interest. The FY 1986 request reflects our view, based on experience, that foreign assistance has proven to be an important tool in achieving foreign policy objectives.

As the Secretary has already testified, the foreign assistance program is critical to the achievement of some of our highest foreign policy priorities -- the promotion of peace in the Middle East, assuring access to such strategically important regions as the Persian Gulf and Southeast Asia and support for democracy in Latin America.

Economic growth in the Third World is also directly linked to the growth of our foreign trade and export capacity.

The foreign assistance program has also produced notable achievements in accomplishing our humanitarian objectives of helping developing countries to improve their own development prospects and to meet the basic needs of their people. I would like to cite some examples.

Especially promising are initiatives to transfer new health technology to the Third World. From the very gratifying results we have seen to date -- particularly in the area of improved child survival -- and research which holds promise of new breakthroughs in the near future, I believe it is fair to say, in fact, that we are on the verge of a "Health Revolution."

By teaching families how to use life-saving oral rehydration salts, we have demonstrated -- in country after country -- that the use of this new technology can produce a dramatic reduction in infant mortality rates. Similarly, our support for expanded immunizations has the potential for overcoming what are now major causes of death and diminished quality of life each year for millions of children in the Third World.

In addition, our support for key research is permitting A.I.D. to stay on the cutting edge of technology for child survival. The United States deserves, and has received, a great deal of credit for the technological breakthroughs on which our Child Survival Action Program depends. A.I.D. is committed to maintaining this leadership, specifically focusing on the rapid development and improvement of vaccines against the major killers of infants and children -- such as measles and malaria.

A second area, where I think there is both an acute need and the possibility of solutions through our technology transfer efforts, is the reversal of the long-term trend of declining per-capita food production in Africa. Through the foreign assistance program we have already successfully developed and released the first commercial hybrid of sorghum -- a major staple food crop in Africa. This new sorghum variety produces a 50 percent increase in yields. We are now funding part of a broad multi-donor research effort in Africa to develop new methods of dryland farming. We expect this effort to point the way to increased grain production under the semi-arid conditions widespread in the sub-Saharan region. And we are funding the development of new types of maize, tubers and other crops, as well as new methods of pest control, all of which hold the possibility of dramatically improving food production.

A second major element of the food production problem in Africa is governmental policy. It is clear that inappropriate policies on the part of African governments have held down food production. As a result, coupled with our agricultural research, we have initiated policy dialogue efforts in a number of African countries, as well as elsewhere. These efforts have helped focus attention on the need to change inappropriate policies and eliminate controls on market incentives to increased production. Through A.I.D.'s successful policy dialogue efforts, a number of African countries -- such as Zambia, Somalia, and Uganda -- have already made difficult but important policy reforms. And coupled with these continuing policy dialogue efforts, we are planning to use the $75 million that was included in the FY 1985 Continuing Resolution for new programs in Africa for programs that will encourage further policy changes. We have included an additional $75 million in our FY 1986 ESF request to be used to encourage further economic policy reforms in Africa aimed at increasing food production.

Another major area where we have had some particular success and on which we need to continue to focus resources is that of family planning. Successful A.I.D. programs in Asia have demonstrated our ability to assist developing countries in their efforts to implement voluntary family planning programs, when there is commitment of the part of the government. Our recent experience with contraceptive social marketing shows promise of becoming an effective new way to increase the distribution of population commodities.

Other areas of success in our foreign assistance program include increased involvement of the private sector in development. We have had particular success in stimulating the increased role of small and medium-sized agro-businesses in the development process in a number of developing countries. And we have increased the involvement of Historically Black Colleges and Universities in this country in the training of developing country participants from government and the private sector.

In the area of institution building, the foreign assistance program has helped significantly increase the level of training of future developing country leaders and the strengthening of their indigenous institutions. In Swaziland, where an expanding health system had outstripped the ability of its administrative systems to staff and support it, the establishment of an A.I.D.-funded Institute of Health Sciences has given the country a high quality institution for training its own nurses and health personnel. The Central America Business School, founded with A.I.D. assistance, is now a key technical resource in improving private sector export management capacity.

Our foreign assistance program has proven effective, too, as a vehicle for responding to the international humanitarian concerns of Americans -- providing worldwide disaster relief and assistance with crises such as that now facing Africa.

I could cite many more such examples. Through successes such as these, our foreign assistance program is effectively helping to meet the basic human needs of the poor majority of the Third World. It is contributing, thereby, to our foreign policy goal of fostering improved stability and progress toward economic self-sufficiency in the developing nations.

And finally, it is important to remember that the foreign assistance program is important from a domestic standpoint as well. A high percentage of the funds authorized and appropriated by the Congress for foreign assistance are spent in the U.S., creating jobs and stimulating exports; more than one third of all U.S. exports now go to Third World nations. Funding for crop substitution projects is an important element in our international efforts to counter the production and trafficking of narcotics.

In short, our foreign assistance program is on track, producing the intended results.

But we are faced with growing demands for the limited foreign assistance resources at our disposal in FY 1986.

- The drought in Africa, besides creating near-term famine, has accelerated the long-term decline in African food production, necessitating a significant increase in aid to that troubled region.
- Many countries are continuing to recover only slowly from the worldwide recession and oil price shock, and need continued balance of payments support to help them overcome pressing economic problems.
- Continued internal unrest and external aggression threatens the economic and political stability of countries in strategically important regions such as Central America and Southeast Asia.
- And we are confronted with new opportunities and challenges. In parts of Africa, governments need our help in finding solutions -- through economic policy reform and structural changes -- to complex economic problems that have been in the making for decades. In the Andes, emerging democracies need our assistance in overcoming internal unrest and confronting mounting economic problems.

In short, the combination of increased fiscal restraint and the need to apply resources to new demands has forced some very difficult budgetary and programmatic choices for FY 1986.

As a result, the FY 1986 request is a lean budget, closely focused on priorities. In developing this request, we have sought to carefully integrate the various components and programs which make up the overall request -- in order to achieve the coordination necessary to get the most from our aid.

To do so, we have made very active and, I think, effective use of the integrated budget process to strike the right balance in the level and kind of resources within countries and in the overall mix of foreign assistance. The result is a foreign assistance budget request which essentially retains the existing balance between economic and military assistance.

In addition to holding down our request for program funds, we have sharply limited our request for Operating Expenses -- as part of the government-wide effort to achieve greater economies in the management of Federal programs.

o To fit within the tight budget request level for Operating Expenses we have increased attention to operating efficiency. We are taking advantage of the fact that our major policies are now in place, allowing us to focus our attention, and our resources, on improving program implementation. We have already taken steps to revise the agency's programming system -- to achieve a more efficient use of staff both in Washington and the field.

o We are simplifying and streamlining the planning process.

o We are eliminating unnecessary elements of the agency's budgetary process.

- We are increasing the delegation to our field missions of responsibility for project development and approval.
- We are introducing new procedures to improve our oversight of management performance. We have initiated a new management planning process and regular program implementation reviews to assure that our program objectives are being met and that funds are being obligated in a timely manner.
- And we are undertaking new arrangements to make more efficient use of resources, such as the new cooperative arrangement we have established with the Peace Corps.

As a result, the FY 1986 program I bring before you has been reduced to its essentials. The request is the very minimum we think we can operate with, given the magnitude of the resource needs confronting us.

Details of FY 1986 Request

Our general approach in developing the FY 1986 request has been to hold levels in total to those in last year's request. Within the overall program we have made some marginal adjustments among programs to meet priority requirements.

- The request for Development Assistance is essentially the same as our FY 1985 request. For the Functional Accounts, including the Sahel program, the request totals $1.675 billion. Within the Functional account request, there has been some shift in the levels for individual programs.

-- The request for Agriculture is $792.5 million. This level is up about 5 percent over the FY 1985 level, mainly due to the need for increased assistance to Africa.

-- The request for Population is $250 million. Although down from the 1985 appropriation, due in part to declining requirements in Asia, the level was held to the same as last year's request.

-- The Health request, $146 million, also is down -- as a result of forward funding in FY 1985 made possible by the $75 million increase for new health and child survival activities. To maintain the momentum in health, we have accelerated the development of new health projects to come on line in the coming years.

-- The other Functional accounts -- Education and Selected Development Activities -- are down just slightly from last year's request levels.

-- The Functional account request also includes $20 million for the third year of capitalization of the private sector Revolving Fund through which we are helping finance increased involvement of private enterprises in development.

Also within the Development Assistance program we have requested $10 million for American Schools and Hospitals and $25 million for Disaster Assistance -- the same levels as we requested last year.

For the Economic Support Fund, we are requesting a total of $2.824 billion. This represents a slight increase from last year's request, excluding funding for Israel on which a decision has yet to be made. The increase is principally to accommodate the planned increase in Pakistan, and some new requirements in Latin America, which I will detail in just a moment, plus continuation of the African Economic Reform Program.

From a geographic standpoint, the allocation of DA and ESF represents some shifts among countries and regions compared to amounts we currently have budgeted for FY 1985.

-- In Africa, the request for DA and ESF is up by a total of $42 million over current FY 1985 levels -- principally in ESF -- distributed among several countries including Kenya, Zambia, Somalia, and Liberia. As I said, the request also includes $75 million for African economic reform. And of course, we are proposing a large food aid supplemental for FY 1985 to help meet immediate food needs.

-- In Asia, total DA and ESF is down about $45 million from current levels, due principally to the reduction in ESF -- back to our original 1985 request level -- for the Philippines, which had been increased this year as a result of the limitation on military assistance. DA reductions would also occur in Bangladesh, Indonesia, Sri Lanka, and

Pakistan, the latter offset by our planned ESF increase in Pakistan.

-- In Latin America, the combined DA and ESF request is up about $100 million from the FY 1985 appropriated level, excluding amounts carried forward from last year's supplemental. This is due mainly to the $70 million total ESF program proposed for economic stabilization purposes for the Andean region -- Peru, Ecuador, and Bolivia. In addition, levels for El Salvador and for the regional programs in Central America and the Caribbean are slated to rise a total of $52 million to provide sorely needed support through projects resulting from the Kissinger Commission recommendations as well as the Caribbean Basin Initiative.

-- In the Near East, leaving aside the question of funding for Israel and excluding amounts budgeted in Lebanon from an earlier supplemental, DA and ESF is down a total of $18 million from currently budgeted FY 1985 levels. The net decrease is due mainly to a proposed $25 million reduction in ESF for Turkey, where economic progress is moderating the need for continuing high levels of assistance. This cut is partly offset by a $7.5 million increase in ESF for Morocco, which is taking hard measures to bring about a positive economic reversal of their troubled economy.

-- Centrally funded DA programs are down from FY 1985 levels by a total of roughly $65 million. The decrease is due mainly to the forward funding of population and health activities which has occurred during the current year as a result of the increases in those programs.

For PL 480, the total budget authority request, excluding the World Food Program, is $1.307 billion. The Title I request of $657 million in budget authority will support a program level of $1.030 billion, sufficient to provide 5.0 million metric tons to 33 countries. The request includes a new $35 million program for the Philippines, provided discussions with the GOP policy reform prove successful.

For Title II we are requesting $650 million, which we project will enable us to provide almost 2 million metric tons of food. Our FY 1985 request of $650 million at this time last year was projected to enable us to provide 1.7 million metric tons. So while our request is the same as last year in dollar terms, because of lower estimated commodity prices we will be able to provide more food. The Title II regular Voluntary Agency programs for Africa have been increased from the FY 1985 level and we have designated at least $25 million from the unallocated reserve for enhancement of these programs to help rehabilitate Africa from the effects of the current drought. We believe our FY 1986 request along with our FY 1985 reprogramming efforts and supplemental request will allow us to meet current projected food aid needs for Africa. Obviously, should conditions require an extraordinary U.S. food aid response to Africa in FY 1986, and available resources prove inadequate, we will consider requesting a supplemental appropriation.

For the Trade and Development Program, we are requesting $20 million, nearly the same level as last year's request.

Under Multilateral Assistance, we are requesting a total $1.348 billion for scheduled replenishments of the Multilateral Development Banks. In addition, we have requested an FY 1985 supplemental appropriation to cover unfunded prior year replenishment payments. For the International Organizations and Programs account we are requesting $196 million, up slightly from last year's request excluding IFAD, for which funding of the first replenishment was completed in FY 1985. We have not yet concluded negotiations on a second IFAD replenishment.

The FY 1986 for the Peace Corps includes $2.8 million for a new African Food Iniatitive aimed at improving food availability at the community level. A.I.D. and the Peace Corps are jointly planning the Initiative which will offer new potential for enhanced field coordination between the two agencies. The first year of the program is slated for two countries -- Mali and Zaire -- and eventually we plan to expand it to include between six and twelve African countries.

That concludes my opening statement, Mr. Chairman. I will be happy to respond to questions.

# # #

The CHAIRMAN. Mr. McPherson, taking up on the points you have just made with regard to Egypt, could you describe how we became involved in the power generating area and how this involvement fits the overall goals of your agency or American diplomacy?

Mr. MCPHERSON. We became involved in power generation very early. We have been back in Egypt since 1974. And not long thereafter we began power generation programs.

In the last 4 years, there have not been nearly as many starts as there were earlier, principally because I have been interested in seeing power rates somewhat connected to how much power work we did. There has been some progress on that front and so we have proceeded.

Power is a key factor, of course, to economic growth, and we have felt it was a reasonable program to be involved in, providing, as I say, that there was movement on oil prices.

The CHAIRMAN. Would you describe precisely how the financing works in a power generating project? To what extent are U.S. dollars involved? Are there loans and are there contributions by the Government that is being assisted?

Mr. MCPHERSON. Usually we are involved with several other entities. The World Bank and other governments might be involved. Our money is generally grant money and has been for the last couple of years. The Egyptian Government usually puts something into it. We think that is an important part of it.

They are very large projects. Usually our contribution is $100 million or more. What we have just agreed to when Mubarak was here last week was Shoubra 4, which will be the fourth in a series of power facilities we have built. We helped build the first three along with several other governments.

The CHAIRMAN. In the area of food assistance, you touched upon the policy changes that AID has encouraged other nations to adopt. To what extent is our aid contingent upon a nation adopting a pricing policy that is likely to lead to greater strength for indigenous agriculture and for the success of indigenous farmers?

Mr. MCPHERSON. These are not things that are easily measurable and generally not talked about too much publicly, because sometimes public discussion of these matters makes it more awkward for a government to do what it otherwise would want to do. So the U.S. citizenry has heard relatively little about this, compared to the great deal of discussion we have had with governments on this subject.

I think of ourselves as development bankers, and we will encourage our loans, if you will, to pay off in the form of economic growth. While we do not always say: "you do this or we will not give you something, the facts are that there is a clear correlation between the vast majority of countries we work in and their economic policies—agricultural pricing policies in Africa are one of the primary ones we are concerned about.

The CHAIRMAN. The committee has heard in other testimony of remarkable changes in the People's Republic of China in agricultural production in the last several years. Indeed, there are some who would testify that a 50 to 100 percent gain has been obtained by changes in the agricultural policies of that country.

Why have gains by the 21 countries in Africa that have been the subject of much of our attention recently not been comparable to those that have been obtained in the People's Republic of China?

Mr. McPHERSON. I think there are a couple of reasons. One is that many of the countries in Africa have not in fact done what China did. There have been some countries that one could point to in the last couple of years that have made important changes. But China made these changes several years ago and has begun to reap real benefits because of them.

You can look at selected countries in Africa and find that they are reaping benefits as well. For example, Somalia raised the prices the farmers received for sorghum and bananas and production last year went up 40 percent. Zimbabwe has done the same for corn, and we anticipate that this year Zimbabwe will be a net exporter of corn to other African countries, perhaps as much as a million tons.

It is clear that in countries that have followed this market model—and it clearly is not necessarily a Western market model, as China has shown—this market model or price incentive policy has reaped some real benefits.

Another factor is that China has a fairly elaborate infrastructure that allows food to be moved around within the country reasonably well. It is not perfect in any sense, though. The agricultural sector is in a position to respond particularly well to market incentives.

I think that in some developing countries in Africa where the roads have not been constructed to permit the corn or the wheat to be brought out to be sold at higher prices, response may not be as fast. But as I suggest, we now have ample evidence that there will be sufficient response to make it worthwhile.

I would suggest, Mr. Chairman, that it is important to combine these market force incentives with technology. I have been 100 miles into Shanghai, back in those rice paddies there, and I have seen that miracle rice being planted back there. Now, we do not have miracle seeds for much of Africa, but that is one of the things that we are working on. Just as those corn fields in Indiana in the 1930's probably did not produce more than 60 or 70 bushels per acre—today they produce 150, maybe more. It was not just market forces but technology that helped make the difference.

We are trying to bring that kind of technology to parts of Africa.

The CHAIRMAN. Is there great philosophical resistance to this idea of market orientation or toward the use of better seed or technical improvements? To what extent is publicity given to the examples that you mentioned in Zimbabwe or Somalia?

Although people might resist our ideas simply because they come from the United States, are they not more likely to accept them because Zimbabwe has had some success?

Mr. McPHERSON. It is interesting for me to look back to 4 years ago. Four years ago, places like Senegal would never have dreamed of the changes that they have made in last 4 years—back then they would not have dreamt of them.

The facts are that 20 years of statism, from independence on, until about 1980, Senegal's economic planning was seen by many people as being utterly inadequate. They could see they were losing production per capita year after year. And then along came the international recession and then the drought. That forced people to think about things that, of course, were almost unthinkable before.

So when I look back 4 years ago and then look again today, I see a lot of people, left of center, looking at market forces, not ideologically, but looking at them in terms of how to feed their people.

For me, the example of China is beautiful, not because, of course, of what it is doing for China, but because it shows that this is not some sort of western cultural import. It is a worldwide human nature effort. Now, not only can we say, "do what we are saying," but also, "look at China, they have some lessons to tell, too, in this regard."

The CHAIRMAN. This is a topical question. We last saw each other, as it turned out, in Geneva where you were attending the conference on famine relief, which our Vice President addressed as well as statesmen from around the world.

As a part of that conference, was there some sharing of agricultural ideas or of food production or research? Or was the entirety of the conference simply a reporting session about the contributions that nations would make to the overall crisis?

Mr. MCPHERSON. The conference focused almost entirely on the immediate crisis. I was for that because I was afraid that if the conference were to have a broader focus, then we would not really force ourselves, as countries, to grapple with the most immediate problem.

On the other hand, clearly these longer term problems are ones that need to continue to be focused on, and in other fora we are doing that.

The CHAIRMAN. Let me ask you some specific questions about the requests in the budget submission that you have. In the 1986 AID request there appears to be a significant reallocation of resources. Health funding, for example, is reduced apparently by 34 percent, and the child survival fund eliminated, while military assistance appears to be growing.

Have you been a part of the overall planning for the budget submission? What comments do you generally have on what appears to be a reallocation of administration requests?

Mr. MCPHERSON. Yes, I am very much involved throughout the process in the executive branch, with OMB and the State Department and so forth.

I think that part of this issue has to do with how you characterize various accounts. There are at least a couple of different ways of looking at this, but let me go down through them, because I think that would be helpful.

If you assume an Israeli number for 1986 which is the same as it was last year, $1.2 billion, and if you assume that economic assistance includes both DA and ESF then in fact the military as a proportion of the whole foreign assistance budget goes from 42 percent in 1985 to 41 percent in 1986.

The CHAIRMAN. Let me just repeat that. The military assistance level, if you assume $1.2 billion for Israel, goes from 42 to 41 percent in the 2 years, at least in your calculation?

Mr. MCPHERSON. Yes. Now, there are a couple of critical assumptions here—one is that ESF is economic assistance. Now, I think that is a fair assumption. The law prohibits ESF to be used for military expenditures, and we have been very careful about that.

Two, about 25 to 30 percent of the ESF is actually projectized in the same fashion as if it were development assistance.

Three, in this world of huge debt in the LDC's and the economic readjustment process that many of the LDC's are going through, ESF provides some of the most vital assistance that the LDC's receive to keep their economy intact. This assistance keeps their people working, which, in turn, maintains political stability to some degree. ESF, in the form of balance of payments, provides genuine economic assistance.

The communication I read in my introductory comments from President Duarte to me is indicative of that kind of concern. Accordingly, I think it is realistic to put ESF in the economic column.

Now, clearly not everyone agrees with that. But I think that is the nature of how we use that money, and I can tell you that, under my stewardship as AID Administrator, I have been very anxious to achieve the maximum economic growth impact that ESF can provide.

The other factor is that ESF has grown somewhat and development assistance has decreased somewhat, some $30 million or so from what we asked Congress for last year. Now, it is fair to ask, "What is that about?" Much of the ESF increase is for a new economic program, an ESF program in the Andes, where, in the last couple of years, a fairly serious situation has developed, both economically and politically, in Peru and Bolivia.

So if you balance it all out, it is my judgment that this is not an unreasonable balance; that in fact it is largely a matter of interpretation by some that suggest there is an undue balance on the military side.

I guess lastly I would say that, while my business is on the economic front, I can tell everyone here that without political and military stability you do not have economic progress. And we cannot have a program that does anything in El Salvador without some sort of military umbrella, just as we cannot in Sudan or a lot of others places.

The CHAIRMAN. Let me ask another question about changes in funding or what appear to be changes in funding. The administration's request for population funding is apparently $40 million lower than the amount appropriated for fiscal year 1985. Does this lower level reflect less anticipated funding for either the International Planned Parenthood Federation or the United Nations Fund for Population Activities?

Mr. MCPHERSON. Your question was precise, Mr. Chairman, because as you said, the fiscal year 1986 request is $40 million less than was appropriated in fiscal year 1985. Actually, the request for our population program that we are presenting to Congress is $250 million for fiscal year 1986 and that is exactly the amount that we requested for fiscal year 1985. Even though the development-assistance account is down a little bit from what we requested in 1985, we are keeping the population number the same.

We do indeed anticipate spending the money this fiscal year that might have been spent for IPPF, and we would next year as well. I think that it is important to lay down the point that the President's policy on population is opposed to abortion and to spending our moneys on abortion, but, at the same time, it is clear that the availability of contraceptives for individuals to make their family decisions is an important part of our population program. And we are continuing to follow that policy.

The CHAIRMAN. Thank you very much, sir.

Senator Pell, do you have questions of our witness?

Senator PELL. I do, but do you want to continue yours?

The CHAIRMAN. That is all right. I will yield to you and we can alternate.

Senator PELL. Thank you very much.

First, I think, Mr. McPherson, you know my regard and respect for the job that you do.

Mr. MCPHERSON. Thank you, Senator.

Senator PELL. I wish you well in every sense of the word.

Last year, AID agreed to accept the earmark of 15 percent for the PVO's. What would be your reaction to a 20-percent earmark of aid to be channeled through the PVO's?

Mr. MCPHERSON. Well Senator, I would hope that you would not do that.

Senator PELL. Why?

Mr. MCPHERSON. As you know, we have gone through the figures, and I knew you were going to ask about PVO's, so I tried to put my hand on these figures. The percentage has been going more or less steadily up, certainly from when I came to AID as Administrator, when I believe PVO funding was about 12 to 13 percent in 1980-81.

In fiscal year 1986, we anticipate providing 16.9 percent, up from about 16 percent in fiscal year 1984. For fiscal year 1985, we will be doing about 17.6 percent—including drought assistance to Africa. The range has steadily gone up, and I think that is probably about right.

Senator PELL. The point here is I would like to see that trend continued. I realize it is your own good sense that has moved it up above the earmark. But, also, I think the Congress' thoughts in this regard have perhaps helped as well.

So 17 percent is obviously a darn good job in view of the fact that 15 percent is all that you were obligated to do. But I would like to see that trend sustained. How do you see the trend going?

Mr. MCPHERSON. Well, I think it depends upon the nature of the program. I feel, for example, that it is critical for us to continue to do some research. For example, the sorghum varieties that we are trying to develop in the Sahel are absolutely key. The malaria vaccine, which we put a lot of money into last year or these last years, is now being field tested.

Those are the kinds of projects which PVO's logically would not do. There are other efforts which PVO's do not ordinarily want to engage in. It seems to me that the current percentage reflects roughly the sort of program that we have.

But, it seems to me that we are making every effort to consider PVO's as the occasions and the type of programs allow. My guess is that we will continue to have a broader involvement of PVO's, in part reflecting the fact that PVO's are beginning to do different things than they did 4 or 5 years ago.

But, I would like this evolution to take its own pace, rather than forcing and perhaps misallocating resources by such earmarking.

Senator **Pell**. Also, is there not a singularly larger use now of PVO's because of the problems in Africa where the PVO's are being used more than in other parts of the globe on a percentage basis of the aid going out?

Mr. **McPherson**. There is no question that the PVO's have had a dramatic and important role in Africa, and my guess is that out of that will come the creation of stronger PVO's which can do more work. And I am not at all against—in fact, I am for—more and more PVO work, particularly as they broaden the type of things that they do.

But I would like to let us have that evolve, rather than put earmarks on it.

Senator **Pell**. Could you submit for the record, unless you know already, what the percentage channeled through PVO's is worldwide, exclusive of Africa?

Mr. **McPherson**. I do not know. I would be happy to provide that.

Senator **Pell**. I would wager that it would be below 15 percent.

Mr. **McPherson**. Well now, Senator, I do not know. I would be happy to provide that. Do you mean exclusive of the Africa drought?

Senator **Pell**. Yes.

Mr. **McPherson**. We would be happy to look at that. But I do not think so, because you will notice that in fiscal year 1986 we project 16.9 percent for PVO programs and we are not projecting, perhaps optimistically, major expenditures out of this account for drought in fiscal year 1986.

[The material referred to follows:]

AID FUNDING TO PVO'S

AID funding to PVOs, exclusive of emergency assistance provided to respond to the Africa drought, is estimated at 16.7 percent in FY 1985 and 16 percent in FY 1986. (Emergency funds will total some $17 million in FY 1985 and $16 million in FY 1986, exclusive of what additional assistance might be provided through PVOs under our Africa supplmental request.)

Funding for PVO programs in Africa (including the drought assistance) represents approximately 22.4 percent of the total PVO funding in FY 1985 and 23.9 percent in FY 1986; emergency drought assistance constitutes 5 percent and 5.5 percent of the total PVO funding each year. If you exclude Africa from the PVO funding levels, the percentage of development assistance funding PVOs receive (as a total of all DA funds exclusive of Africa) is 16.6 percent in FY 1985 and 16.3 percent in FY 1986.

Senator **Pell**. Well, I trust you will keep up that 17.6 percent in the next round. If it keeps going up, hurrah. If it does not, we will try the earmark.

Mr. **McPherson**. As we think about these things, Senator, and talk about these numbers, we often say that we know Senator Pell is interested in this and we need to watch it.

Senator **Pell**. Thank you.

Mr. **McPherson**. I say that sincerely, and I think you have been very helpful on this matter, and we will continue to look at it.

Senator **Pell**. Thank you very much.

Another question: Why has the administration bill sought to delete the earmark for the Biden-Pell grant program on environmental education?

Mr. McPHERSON. Do you mean for the PVO education, the Biden-Pell Program?

Senator PELL. Yes.

Mr. McPHERSON. Well, we do not think of that as deleting. I do not think there was ever an earmark per se.

Senator PELL. There was an earmark, I believe, in previous legislation.

Mr. McPHERSON. I think that we are projecting more money for 1986. It seems like it is about $2.4 million in 1985, and I think it is $2.7 million in fiscal year 1986. So the Biden-Pell provision is one of those provisions, although not large in total dollar volume, is particularly helpful.

Senator PELL. When you say it has gone up, it has gone up from the original request of the administration or from the actual appropriation? Which do you mean?

Mr. McPHERSON. This year we are spending about $2.4 million. And I think the fiscal year 1986 request level is $2.7 million.

This is a program which we think is a good program.

Senator PELL. OK. Thank you.

Mr. McPHERSON. I do want to confirm my figures. I am probably off by a tenth of a million there or so, but it is in that range.

Senator PELL. Now I would like to touch on UNEP for a moment if I could. This is not the first time that the administration, Republican or Democratic, has sought to reduce UNEP funding. But this one has a new and ingenious way of doing it, with a budget change to transfer $7 million of the earmarked $10 million to IAEA for 1985, and next year to cut the $10 million to $3 million, in other words making it $3 million in 1985 through this rather tortuous route and $3 million in 1986.

What is the justification for such a really draconian cut? It is down to 30 percent of what it was before.

Mr. McPHERSON. The position of the executive branch is to be pro the one institution, the International Atomic Energy Agency, as opposed to against the environmental institution. I want to make that clear: It is not against UNEP; it is pro the other.

It was simply the lack of resources to fund this very necessary institution, IAEA, and it was felt that this approach would work well—to essentially reduce UNEP back to what the executive branch had asked for in its fiscal year 1985 request. Now, as you know, this is a proposed rescission which must be acted upon by Congress, so, in that sense the consultation process will be completed by requesting that you act on the rescission.

Senator PELL. I attended just a few months ago a conference called the World Industry Conference on Environment in Paris. I saw some of the good work that UNEP had done. People from the developing world had gathered there. It was a remarkable job.

And then I find that we are cutting the legs out from under UNEP, because we are the largest single contributor. I think it will have a devastating effect.

I would like you, if you could, to tell me a little bit more specifically why you feel it should not have the $10 million. Do you have evidence of misspending? Do you consider them incompetent? Is the problem not substantial enough?

When I think of all of the brave words that we said in Stockholm in 1972, which really spawned UNEP—and then I see us failing in our responsibilities here, it makes me sad.

Mr. McPHERSON. Well, I say again, Senator, that I do not think this is a matter of being anti-UNEP, but rather an expression of the need to obtain money for another program.

Senator PELL. Let us forget IAEA, because in 1986 we do not mention IAEA. It is still just $3 million as opposed to $10 million, as it would be today.

Mr. McPHERSON. I think we feel that the $3 million for 1986 basically results from the problem of balancing off the various funding requirements within the International Organizations account. There are a number of those organizations that are listed there which perhaps in an ideal world would get more money.

But in fact, realizing that Congress is only going to have so much money for the 150 account, and only so much money for various organizations, we, in the executive branch—OMB and the State Department—believe that funding levels for these accounts provide the optimum benefit.

Senator PELL. Is there any particular aspect of UNEP that upset you or concerned you?

Mr. McPHERSON. No, I do not think so. I think that UNEP is an organization which is not unusually strong yet, but which is growing. We think it does some good things. Joe Wheeler, the Deputy Director of UNEP, is my former deputy and a man for whom I have a high regard.

It is a matter of competing resources. We are not being critical of UNEP as much as we are saying we need money more in other places.

Senator PELL. Thank you.

My time has expired.

The CHAIRMAN. Thank you, Senator Pell.

Mr. McPherson, the administration request contains no funding for the International Fund for Agricultural Development. What is the rationale for the lack of the funding request, and what is the status of negotiations for replenishment of the fund?

Mr. McPHERSON. The negotiations are really coming to a head, in our judgment. We have argued all along that a principal reason for IFAD was for the OPEC countries to fully participate in international development work, and as such it was very important that they have a very sizable percentage of the IFAD contributions.

For many months now, the OPEC countries have not really firmed up a percentage of what they were going to provide, and there was a suggestion that the percentage might drop substantially below the 42 percent for the second replenishment—that is, the 42 percent which they had provided in the first replenishment.

It now appears that the OPEC countries are prepared to provide 40 percent, although that is not absolutely certain, and the traditional Western donors in considering that position, will have a response to that in the next few weeks.

Now, we did not put a number in the 1986 budget because in fact we did not know whether there was going to be a second replenishment or what the agreement would be. It just was not timely to put a number in.

If and when there is an agreement, then we will have to decide at that time how and when we would fund the second replenishment.

It is my feeling, by the way, that if the OPEC countries would really contribute what we view to be their share, that the IFAD can contribute in important ways.

The CHAIRMAN. Promotion of the private sector has been a major emphasis of this administration. How does AID's present emphasis on gaining greater support from the private sector differ from the past?

And as a part of that question, to what degree has AID been able to increase private sector contributions to development, as opposed to using more private organizations to implement AID programs?

Mr. MCPHERSON. I think it is important first of all to see AID's economic assistance as only one part, indeed I think the smaller part, of the whole picture of economic growth. The policies of the recipient countries themselves and how they encourage investment, both foreign and domestic, the openness of this country to trade from other countries, these factors probably count more than what our foreign assistance can do.

We think probably the biggest contribution we can make is through the type of policy dialog that we discussed early on in this hearing, that of encouraging countries to move away from centralist planning techniques into use of market forces. After all, probably the largest number of entrepreneurs in the Third World are small farmers. And so that is where the principal effort is directed.

On the other hand, there are some places that U.S. enterprise can be helped and encouraged directly. In this country, around 1920, we began to put in a lot of agricultural extension systems around the country. But even before that, seed companies were doing a pretty good job—and ever since have done a pretty good job—of distributing technology, new seeds and techniques.

We are trying in various areas to encourage the formation and in some cases, actually help finance the formation of such seed companies. I give that not as a full explanation, but as an example of our effort to encourage the private sector in market forces.

The CHAIRMAN. Senator Pell, do you have additional questions?

Senator PELL. Yes. Thank you very much, Mr. Chairman.

Touching on population for a moment—and I realize Senator Lugar, our Chairman, has touched on this on a broad scale, but I want to get to a specific point. I believe that AID has suspended funding for the International Planned Parenthood Federation, which is the largest single family planning agency in the world.

I am curious why AID has not sought to work out some kind of solution or resolution of the differences with IPPF.

Mr. MCPHERSON. Frankly, Senator, we have a policy which states quite clearly—and I was involved in discussions on it, so I think I know with some specificity as to what the President wants here. It is a policy which indicates that we cannot provide moneys to organizations which, with their own money, promote or perform abortions.

This opposition to abortion is, I think, statutorily founded in principle and, as carried out here, is one that is not an unreasonable request to an organization that we are providing such a huge amount of funding to. IPPF receives about 25 percent of their funding from us, or has historically, about $12 or $13 million a year, something like that, and uses only about 1 percent of their resources from someplace else in connection with abortion work.

And we have said, goodness, we want to continue to work with you, but we think it is reasonable for you to move out of that abortion work. Their response to date has been that they did not think they could do that, and accordingly we have indicated to them that we could not continue to fund.

Now, faced with the reality that they were not going to be available, a few weeks ago we had very aggressively sought out alternatives to utilize those funds, because of course we wish to spend those moneys for family planning in an effective way. Our concern particularly was to find alternatives in Africa, where IPPF has been a fairly important institution.

In the last few weeks we think we have begun to develop some excellent alternatives, and indeed it looks like we will put more money into Africa by way of these new intermediaries than the proportion of our IPPF contribution that would have gone to Africa.

Senator PELL. IPPF does perform abortions, as I understand it, is that correct?

Mr. MCPHERSON. Yes, Senator. IPPF is a London-based organization which provides moneys to intermediaries, which, in turn, provides moneys to country federations. While IPPF does some work in London, some promotion work basically of abortion, they also provide money to country programs around the world, some of whom actually perform abortions.

So the theory is that our money going to IPPF in London in turn goes to or, at least, is intermingled with moneys of these country federations that perform abortions.

Senator PELL. There is really no specific evidence of IPPF's use of AID money for prohibited activities, for abortions? Presumably it is intermingled with the whole, is that correct?

Mr. MCPHERSON. Well, the issue comes down to, can you segregate U.S. moneys adequately in separate accounts or, in effect, by displacement? Do you effectively have intermingling of U.S. moneys with other moneys?

The argument really is that in this case you have an intermingling of funds, so that for practical purposes it is impossible to segregate them. Therefore we had to withdraw our funds. That is the policy we followed.

It really is a policy that stems from the thought that abortion is certainly not what we want to do, and we have to be extremely careful that we do not directly or indirectly have that kind of impact.

Now, that policy is coupled with the position that family planning services should be broadly available so that families can make their own decisions. We have followed that policy. There is, for example, a growing amount of family planning work that we are doing in Africa.

Senator PELL. I was surprised that IPPF did not set up a separate corporation to carry out the prohibited activities. Was that suggestion made at all?

Mr. McPHERSON. We made it clear that if there were a separate organization that was not controlled by the parent organization, that as far as we were concerned we were prepared to fund them.

Now, that is a pretty involved question—I spent probably 10 hours with their management reviewing this. As a tax lawyer, I have gone down through these questions of what corporation controls another corporation, how and why, probably a thousand different ways in the last 15 years. And I went through a lot of that logic and thinking with IPPF.

I think in the end they felt that they just could not do what we were asking them to do. We respect that, but we ask them to respect our position as well.

Senator PELL. Thank you.

I have one final question concerning the child survival fund which was established by Congress last year. And I was wondering what your criteria was for grants, and what PVO's and international organizations applied for funding, et cetera. Or would you want to submit the answer for the record?

Mr. McPHERSON. My primary criteria in providing that money was the number of lives, children's lives, which could be saved. It is on that basis that we selected some countries to concentrate on, countries where the child mortality rate was relatively low or very low, or countries in which we thought there was some potential for a delivery system that could really work.

Now, with that in mind and after selecting some target countries, we then went to UNICEF. We have given UNICEF some $7 million, with really quite loose control over how they were going to do it. I think UNICEF with its efforts can handle this very nicely.

Then we went to the private voluntary organization community and in effect said: "Here are the countries we want to concentrate on, here is the money; which of you want to do what?" I cannot tell you what PVO's they are now, but we envision the PVO's playing a very major role with a significant portion of this money.

Senator PELL. Is the total of the grant applications in excess of the $25 million currently provided?

Mr. McPHERSON. I hope so, because without it we would not be able to judge, to pull out the very best quality. I am sure there will be excess applications, because there almost always are. But as I say, I think that is healthy. Often, I find these applications can be cut down and made more efficient in a review process.

Senator PELL. Thank you.

Thank you very much, Mr. Chairman.

The Chairman. Mr. McPherson, I have just one last question. Do you have any comment about the administration request for a multiyear authorization for Central America, and to what extent have you participated in the request that might pertain to that?

Mr. McPHERSON. Pretty extensively. I think that would be very valuable, because I think, in fact, a multiyear authorization would give greater security and assurance. And from my program point of view, if we can count on money for a period of years, it will give program management stability, as well as increase the leverage that we have with these countries to bring about the economic policy changes and other policy changes that are so critical for success there in Central America.

The Chairman. We thank you very much for coming at this hour and for being so forthcoming in your responses.

With unanimous consent, I will have the record kept open for submission of written questions, and we are hopeful that you might submit your answers rapidly. We are looking toward a markup next Tuesday and Wednesday of the legislation.

Mr. McPherson. We will try our very best to be very responsive. Thank you, Senator.

The Chairman. Thank you very much for coming.

The hearing is adjourned.

[Additional questions and answers follow:]

State Department's Responses to Additional Questions Submitted for the Record

Question 1. Does the Administration request refer only to the ejection seat cartridges and only on a one time basis? Do you have other safety-related items in mind?

Answer. The request refers to ejection seat and aircraft canopy cartridges and technical manual changes. The cartridges (CADs/PADs) are required to be changed on a time-phased basis, usually 2 to 3 years. Technical manual changes occur whenever operational procedures changes affect safety or operations. CADs/PADs and tech order changes are the only items we currently have in mind.

Question 2. When and under what circumstances did the Chilean Government approach our Government and request these items? What kind of assurances were given to them at that time? Do you have something in writing from the Chileans on this?

Answer. Since 1981, Chilean representatives have periodically requested life support/safety of flight items for their A/T-37 and F-5E/F aircraft, but have been repeatedly denied these items due to legal prohibitions. These verbal requests have been made during annual CONJEFEMER conferences and Joint Staff Security Council meetings. The latest request was during the March 1984 meeting.

In order not to suffer the embarrassment of a formal denial, to our knowledge, Chile has not formally requested these items in writing. Obviously, no assurances have been given to the Chileans.

Question 3. How many aircraft and what types of aircraft are we talking about?

Answer. 25 A/T-37 and 18 F5-E/F aircraft.

(*a*) When were they purchased in the United States?

Answer. A/T-37s in 1973-75 and F-5E/Fs in 1974. These aircraft were purchased using a combination of FMS cash and credit.

(*b*) Are the aircraft in question in the Chilean inventory operational without the ejection seat cartridges? What is the approximate cost of the cartridges requested?

Answer. The aircraft are operational without the ejection cartridges. However, the pilot will most probably crash with the plane if an emergency occurs. The total cost for a one time replacement for the CADs/PADs in the 43 aircraft is about $240,000.

(*c*) Do we presently have these cartridges in stock?

Answer. Yes.

(*d*) How many ejection seat cartridges would be sold if this request is granted?

Answer. The CADs/PADs are, as mentioned previously, replaced on a time-phased basis. These are not storable items. Realistically, the Chileans would purchase only those needed to bring their aircraft up to safety standards.

Question 4. Were the planes equipped with the ejection seat cartridges when they were originally purchased from the United States? If so, why is there a need for ejection seat cartridges?

Answer. The ejection cartridges were, and remain, standard safety equipment on these aircraft. A pilot with any other option would not fly these types of aircraft without current cartridges. Replacements are required on a time-phased replacement basis due to normal deterioration and reduced serviceability over time.

Question 5. What is the current status of these aircraft? Are they grounded? Are they used less than they could be because of the safety hazard?

Answer. These aircraft are operationally capable. Technically they should be grounded for insufficent safety equipment and non-compliance with tech order changes which they have not been able to obtain. This condition restricts severely the Chilean military's ability to train and remain current in aircraft flight procedures.

Question 6. Please describe for us exactly how these aircraft are presently used by the Chilean Government? Would the installation of the ejection seat cartridges enhance their usage? Their military capability?

Answer. The Chilean Government requires a current capability to protect its sovereign territory. The aircraft are designed to be used as jet trainers, for close air support, air-ground attack and for air defense. Provision of ejection cartridges, for seats and canopies, does not enhance combat capability—except that it may save a pilot's life and allow him to fly future missions.

Question 7. We understand that the ejection seat cartridges could also be used to eject bombs from the planes in addition to ejecting the crew in the event of an emergency. Please elaborate on possible alternative uses of this equipment and tell us what assurances we have that if we authorize such a transfer that these cartridges will only be used to enhance the safety of the crew and not only for the ejection of bombs and missiles.

Answer. Ejection cartridges (CADs/PADs) are used in these basic areas:

1. Life support emergency ejection from aircraft.
2. Emergency starting of jet engines.
3. Ejection of stores (bombs, missiles, etc.) from the aircraft.

There are many different types of ejection cartridges, depending upon the job to be accomplished. The cartridges used to eject the canopy or pilot's seat cannot be used to eject bombs or missiles or even emergency start jet engines. It would be possible to restrict sales to one or all of the areas mentioned.

Question 8. Do you believe that if we make this exception to existing prohibitions on the transfer of defense articles to Chile that our Government will be sending a signal to the Government of Chile that indicates approval in any way of the recent reimposed state of seige in that country?

Answer. While there may be persons in Government that will choose to misconstrue our action, we do not believe that the Chilean military will be misled. We will make clear through military-to-military contacts that this action is aimed at safety of flight only. Legislative constraints aimed at Chilean governmental excesses notwithstanding, military-to-military relationships have remained candid and professional.

The senior Chilean military attach a great importance to the safety of flight issue, which places not only the pilots and trainees in jeopardy but also large segments of the civilian population. A pilot faced with an emergency situation who has confidence in his capability to eject has more time to react and direct his aircraft away from populated areas.

This exemption would demonstrate clearly a U.S. national commitment to save human life, not indicate approval of any governmental excesses.

APPENDIX

PEACE CORPS

STATEMENT

OF

LORET MILLER RUPPE

DIRECTOR

THE PEACE CORPS

SUBMITTED TO

THE SENATE FOREIGN RELATIONS COMMITTEE

MARCH 25, 1985

806 Connecticut Ave., N.W. Washington, D.C. 20526

MR. CHAIRMAN; MEMBERS OF THE COMMITTEE: IT IS A PLEASURE FOR ME TO SUBMIT THIS STATEMENT TO YOU IN SUPPORT OF THE ADMINISTRATION'S REQUEST FOR AUTHORIZATION OF THE APPROPRIATIONS FOR THE PEACE CORPS FOR FISCAL YEAR 1986. I ALSO WANT TO TAKE THIS OPPORTUNITY TO THANK YOU FOR YOUR SUPPORT IN THE PAST WHICH HAS ENABLED OUR AGENCY TO MOVE FORWARD AND BETTER MEET OUR GOALS.

I HAVE JUST RETURNED FROM A TRIP TO AFRICA WHERE I HAD THE HONOR OF ACCOMPANYING VICE PRESIDENT BUSH ON HIS VISITS TO SUDAN, NIGER AND MALI. THE PURPOSE OF THIS TRIP WAS TO GATHER FIRST-HAND KNOWLEDGE REGARDING THE AFRICAN FOOD CRISIS AND TO SEE WHAT IS BEING DONE--THROUGH EMERGENCY AID AND LONG-TERM PROJECTS DIRECTED AT ALLEVIATING THE DEVASTATING SITUATION RAVAGING THAT CONTINENT AND ITS PEOPLES.

IN WESTERN SUDAN WE VISITED A REFUGEE CAMP WHERE THOUSANDS OF ETHIOPIAN DROUGHT VICTIMS ARE RECEIVING U.S. EMERGENCY GRAIN. IN THE SAME AREA A LONG-DISTANCE TRANSPORTATION SYSTEM DELIVERS SURPLUS AMERICAN SORGHUM AND WHEAT TO APPROXIMATELY 1.4 MILLION INHABITANTS OF THAT DROUGHT STRICKEN REGION. IN SUDAN IT IS ESTIMATED THAT AT LEAST A FOURTH OF THE 22 MILLION CITIZENS COULD RISK STARVATION.

THE PEOPLE OF SUDAN WERE SO EXTREMELY GRATEFUL FOR THE ASSISTANCE AMERICANS HAVE AND ARE PROVIDING. FATIH BASHIR BUSHARA, GOVERNOR OF KORDOFAN TOLD US, "THE PEOPLE OF THIS REGION WILL NEVER FORGET WHAT THE AMERICANS HAVE DONE FOR US."

IN NIGER, DUST STORMS PROHIBITED US FROM VISITING AN OFF-SEASON IRRIGATED AGRICULTURE PERIMETER, IN MARADI, WHERE RE-LOCATED INDIVIDUALS WORK ON FOOD SELF-SUFFICIENCY. HOWEVER, I DID VISIT WITH MANY OF THE 120 VOLUNTEERS WORKING THROUGHOUT THE COUNTRY, ON WELL CONSTRUCTION, AGRICULTURE, IMPORVED WOOD STOVES, HEALTH, ETC.

THE TRIP TO MALI WAS EXTREMELY IMPORTANT TO ME AS THIS COUNTRY IS TO BE THE FIRST COUNTRY FOR OUR NEW AFRICA FOOD SYSTEMS INITIATIVE. IN MALI VICE

PRESIDENT BUSH MET WITH PEACE CORPS VOLUNTEERS WHO SHOWED HIM FIRST HAND WHAT THEY ARE DOING IN THEIR LONG-TERM PROJECTS OF AGRICULTURE, ENERGY CONSERVATION AND RURAL DEVELOPMENT--ALL PROJECTS DIRECTED AT HELPING THE PEOPLE AT THE GRASS ROOTS LEVEL BECOME SELF-SUFFICIENT.

IN MALI I ALSO VISITED PEACE CORPS SITES IN SEGOU, BANDIAGARA, BAMAKO, OUELESSEBOUGOU AND BANAMBA. I WANTED TO SEE THE WORK OUR VOLUNTEERS ARE DOING AND THE AREAS THAT OUR FOOD SYSTEMS VOLUNTEERS WILL BE ASSIGNED TO HELP ADDRESS THE NEEDS OF THE MALIAN PEOPLE. MANY OF THESE PROGRAMS AND PROJECTS WILL BE DUPLICATED WHEN OUR AFRICA FOOD TEAMS BEGIN WORKING IN MALI NEXT YEAR. WHILE IN MALI I MET WITH THE MINISTER OF AGRICULTURE TO DISCUSS OUR AFRICA FOOD INITIATIVE. HE WAS VERY PLEASED WITH THE INITIATIVE PLAN AND SAID "THE PEOPLE OF MALI ARE STRONG PEOPLE AND EVEN WITH THE PROBLEMS OF THE DROUGHT, THEY WILL SURVIVE, ESPECIALLY WITH THE HELP OF THE UNITED STATES PEACE CORPS."

I CAN TELL YOU THAT FROM WHAT I SAW BEING DONE AND WHAT STILL NEEDS TO BE DONE, OUR NATION AND THE FREE NATIONS OF THIS WORLD HAVE AN UNPARALLELED CHALLENGE AHEAD OF US. THERE IS NO QUICK FIX OR EASY SOLUTION TO THE AFRICA FOOD CRISIS. EMERGENCY RELIEF IS BEING RECEIVED AND IT IS GREATLY APPRECIATED, BUT ALONG WITH THE EMERGENCY RELIEF, WE MUST REALIZE THAT A COMMITMENT IS GOING TO HAVE TO BE MADE ON OUR PART TO PROVIDE THE LONG-TERM DEVELOPMENT ASSISTANCE SO URGENTLY NEEDED--DEVELOPMENT ASSISTANCE AT THE GRASS ROOTS LEVEL THAT WILL TRULY HELP THESE PEOPLE, HELP THEMSELVES.

RESPONSE TO AGRICULTURE APPEAL

THE PEOPLE OF AMERICA ARE READY TO MAKE SUCH A COMMITMENT. THEY ARE RESPONDING IN OVERWHELMING NUMBERS TO THE CALL FOR HELP IN AFRICA. OUR RECENT NATIONWIDE

APPEAL FOR 600 AGRICULTURE AND AGRICULTURE RELATED VOLUNTEERS TO GO TO AFRICA TO WORK IN CURRENT PROGRAMS DIRECTED AT FIGHTING FAMINE HAVE PRODUCED ALMOST 17,000 INQUIRIES FROM AMERICANS OF ALL AGES. THEY HAVE COME FROM ALL WALKS OF LIFE, ALL EDUCATIONAL BACKGROUNDS, AND SHARE ONE COMMON DESIRE--TO HELP THOSE LESS FORTUNATE THAN THEMSELVES. THIS OUTPOURING OF GENUINE INTEREST SHOWS THAT AMERICANS ARE WILLING TO SHARE OF THEMSELVES, GIVE TWO YEARS OF THEIR LIVES, TO HELP IMPROVE THE WORLD WE LIVE IN.

600 OF THE APPLICANTS FROM THIS APPEAL WILL BE PLACED IN THE SPRING AND SUMMER PROGRAMS TO FILL OUR CURRENT NEEDS FOR AFRICA. OTHER APPLICANTS FROM THE AGRICULTURE APPEAL WILL BE USED AS A TALENT BANK FOR FUTURE NEEDS IN AFRICA.

AFRICA FOOD SYSTEM INITIATIVES

THIS YEAR IN CONJUNCTION WITH OUR OTHER WORLD-WIDE GRASS ROOTS DEVELOPMENT PROGRAMS--WE WILL HAVE OVER 6,000 VOLUNTEERS AT END OF FY 85 WORKING IN 60 COUNTRIES--WE HAVE BEGUN A NEW PROGRAM WE CALL THE AFRICA FOOD SYSTEMS INITIATIVE.

THE AFRICA FOOD INITIATIVE PLANNED AS A LONG-TERM CAMPAIGN WILL HELP AS MANY AS 12 AFRICAN COUNTRIES REVERSE THE 20 YEAR DECLINE IN THEIR PER CAPITA FOOD OUTPUT. LIKE OTHER PEACE CORPS' AGRICULTURE PROGRAMS, IT IS AIMED AT HELPING SMALL FARMERS (WHO ARE RESPONSIBLE FOR THE VAST MAJORITY OF THE FOOD PRODUCTION) TO DEVELOP AND IMPLEMENT SELF-SUSTAINING FOOD PRODUCTION THROUGH THE USE OF FARMING TECHNIQUES AND PRACTICES ADAPTED TO LOCAL CONDITIONS, SKILLS AND RESOURCES.

THE FOOD INITIATIVE WILL CONCENTRATE IN THOSE PEACE CORPS COUNTRIES WITH THE GREATEST NEED THAT HAVE DEMONSTRATED A RECEPTIVITY TO GRASS ROOTS DEVELOPMENT AND A SOLID COMMITMENT TO COMPREHENSIVE NATIONAL FARMING PROGRAMS OFFERING HELP AND PRIVATE INCENTIVES TO THEIR SMALL FARMERS.

THE PROGRAM WILL BE CONDUCTED IN COLLABORATION WITH THE AGENCY FOR INTERNATIONAL DEVELOPMENT (AID), THE U. S. DEPARTMENT OF AGRICULTURE, HOST COUNTRY AGENCIES AND PRIVATE VOLUNTEER ORGANIZATIONS (PVO'S).

THE INITIAL PROJECTS WILL BEGIN IN MALI AND ZAIRE, BOTH LISTED AS COUNTRIES SERIOUSLY AFFECT BY DROUGHT AND FAMINE, AND EXPAND FROM AS MANY AS SIX (6) TO TWELVE (12) AFRICAN COUNTRIES BY FISCAL YEAR 1988.

THE PEACE CORPS AFRICAN FOOD TECHNICAL ASSESSMENT TEAM HAS JUST RETURNED FROM MALI WHERE THEY WENT TO DETERMINE THAT COUNTRY'S NEEDS AND TO DETERMINE THE EXTENT AND NATURE OF COLLABORATION WITH OTHER GROUPS. THEY RETURNED WITH A FAVORABLE RESPONSE ON THE PART OF THE MALI OFFICIALS, AND WITH THREE DISTINCT PROGRAMMING OPTIONS WITH POTENTIAL PLACEMENT OF 50 VOLUNTEERS IN 1986. THE ASSESSMENT TEAM'S RECOMMENDATIONS CONFIRMED OUR ORIGINAL HYPOTHESIS REGARDING THE MULTI-FACETED TEAM APPROACH, AND OF THIS EFFORTS FEASIBILITY FOR GREATER IMPACT. A LIKE TEAM HAS JUST COMPLETED SIMILAR WORK IN ZAIRE AND IS ON ITS WAY BACK TO MAKE ITS REPORT. WHEN THE ASSESSMENT PROCESS IS COMPLETE UP TO 150 VOLUNTEERS WILL BE SENT INTO THE FIELD IN FISCAL YEAR 1986. ANOTHER 200 VOLUNTEERS WILL JOIN THEM THE NEXT YEAR. FOLLOWING AN EVALUATION OF THESE TWO PROGRAMS WE PLAN ON EXPANDING INTO FOUR ADDITIONAL COUNTRIES IN FISCAL YEAR 1988.

ONCE THE INITIAL GROUP OF HOST COUNTRY FARMERS HAVE BEEN SELECTED FOR THE PROGRAM, TEAMS OF 5-10 PEACE CORPS VOLUNTEERS WILL BEGIN WORKING WITH THEM TO TRANSFER BASIC TECHNOLOGIES AND SKILLS. THE FOCUS OF THIS VOLUNTEER "TEAM" CONCEPT WILL BE ON ALL PHASES OF THE FOOD SYSTEM; PREPARATION OF THE FARM LAND; CULTIVATING IMPROVED CROP VARIETIES; INSTITUTING SOUND FARMING PRACTICES; MAXIMIZING THE EFFICIENT USE OF SCARCE WATER AND ENERGY RESOURCES; IMPROVING SOIL FERTILITY AS WELL AS PRESERVING, PROCESSING, DISTRIBUTING AND MARKETING THE CROPS.

TECHNOLOGIES AND FOOD PROGRAMS WILL BE EMPHASIZED THAT HAVE ALREADY PROVEN EFFECTIVE IN THE REGION. I WOULD NOW LIKE TO SHARE WITH YOU SOME FACTS OR HIGHLIGHTS OF THIS LAST YEAR'S WORK OF PEACE CORPS VOLUNTEERS--WORLD-WIDE.

VOLUNTEER DISTRIBUTION

AT THE END OF FY 1985, OVER 6,000 PEACE CORPS VOLUNTEERS WILL BE SERVING IN 60 COUNTRIES THROUGHOUT THE DEVELOPING WORLD. AMONG THESE: 1,902 VOLUNTEERS SERVE IN AGRICULTURE/FOOD PRODUCTION AND RURAL DEVELOPMENT PROJECTS, 1200 OF WHICH SERVE IN AFRICA. MOST OF THESE VOLUNTEERS HELP SMALL SCALE FARMERS IMPROVE THEIR CROP MANAGEMENT TECHNIQUES. ALSO INCLUDED IN RURAL DEVELOPMENT ARE VOLUNTEERS WORKING IN SELF-HELP CONSTRUCTION PROGRAMS, TRANSFERRING SKILLS RANGING FROM THE MANUFACTURE OF BUILDING MATERIALS, TO THE COMPLETION OF SELF-HELP HOUSING, SCHOOLS AND RURAL COMMUNITY CO-OP STRUCTURES. THIS CONCEPT NOT ONLY MAKES CONSTRUCTION AFFORDABLE TO LOW INCOME FAMILIES BUT ALSO FOSTERS OTHER COMMUNITY DEVELOPMENT PROJECTS AS CONSUMER COOPERATIVES AND DAY CARE CENTERS.

441 VOLUNTEERS WORK IN THE AREA OF BUSINESS AND SMALL ENTERPRISE DEVELOPMENT AS ADVISORS TO COOPERATIVES, CREDIT UNIONS, AND RURAL BUSINESSES. THEY TRANSFER SKILLS IN ACCOUNTING, MARKETING AND MANAGEMENT TO THEIR LOCAL COUNTERPARTS.

176 VOLUNTEERS SERVE AS PLANNERS, DESIGNERS AND SUPERVISORS OF THE CONSTRUCTION OF SMALL DAMS, SPILLWAYS AND IRRIGATION CANALS IN RURAL AREAS. VOLUNTEERS ALSO ASSIST IN DEVELOPING VILLAGE SANITATION SYSTEMS. THEY PROVIDE TECHNICAL ASSISTANCE TO MINISTRIES AND RURAL GROUPS IN THE OPERATION AND MAINTENANCE OF POTABLE WATER SYSTEMS. THEIR WORK HAS ENABLED POOR RURAL COMMUNITIES TO CONTROL THEIR WATER RESOURCES.

650 VOLUNTEERS WORK IN HEALTH EDUCATION AND THE ORGANIZATION OF COMMUNITY HEALTH FACILITIES. THESE EFFORTS INCREASE THE ABILITY OF COMMUNITIES AND INDIVIDUALS (PARTICULARLY WOMEN) TO MEET THEIR AND THEIR CHILDREN'S HEALTH AND NUTRITIONAL NEEDS IN A SELF RELIANT MANNER.

105 VOLUNTEERS WORK IN THE AREAS OF RENEWABLE ENERGY AND RELATED RESOURCES INCLUDING DEVELOPING AND BUILDING SAFE ENERGY-CONSERVING STOVES; CHARCOAL PRODUCTION SOLAR FOOD DRYING; BIOGAS PRODUCTION AND BLACKSMITHING.

1,926 VOLUNTEERS WORK IN THE EDUCATION AREAS OF PRIMARY EDUCATION, SECONDARY MATHEMATICS, SCIENCE AND TEACHING ENGLISH AS A FOREIGN LANGUAGE (TEFL). PEACE CORPS IS ALSO RESPONDING TO THE INCREASED DEMAND FOR VOCATIONAL AND TEACHER TRAINING VOLUNTEERS. TEACHER TRAINING IS PARTICULARLY IMPORTANT BECAUSE IT INCREASES THE IMPACT OF THE VOLUNTEERS TRANSMITTAL OF SKILLS. VOCATIONAL NON-FORMAL EDUCATION IS ALSO IMPORTANT BECAUSE HOST COUNTRY MINISTRIES ARE NOW

RECOGNIZING THE IMPORTANCE AND NEED OF VOCATIONAL TRAINING THAT HAS NOT BEEN ACHIEVED THROUGH THEIR FORMER EMPHASIS ON REGULAR OR MORE TRADITIONAL EDUCATION. VOCATIONAL AND VOCATIONAL REHABILITATION TRAINING WITHIN THE DEVELOPING WORLD IS VITAL TO TRAIN THE MANPOWER NEEDED TO BUILD THE INFRASTRUCTURE NECESSARY TO THE DEVELOPMENT OF THESE NATIONS.

MOST OF THE OVER 5,600 PRESENT VOLUNTEERS HAVE SECONDARY PROJECTS WHICH ARE DIRECTED TOWARDS IMPROVING THE QUALITY OF LIFE FOR THE PEOPLE IN THE AREAS WHERE THEY SERVE.

UNV PROGRAM

IN ADDITION TO OPERATING INDIVIDUAL COUNTRY PROGRAMS, PEACE CORPS SPONSORS AMERICAN VOLUNTEERS ASSIGNED TO THE UNV PROGRAM. IN FISCAL YEAR 1984 THERE WERE 37 VOLUNTEERS ASSIGNED TO THIS PROGRAM. TO MEET A GOAL OF INCREASED U.S. VOLUNTEER PARTICIPATION PEACE CORPS INTENDS TO RECRUIT ONE HUNDRED NEW VOLUNTEERS FOR THE VOLUNTEER ROSTER IN BOTH THIS YEAR AND 1986.

ALL U.S. CITIZENS APPLYING TO THE UNV PROGRAM ARE FIRST EVALUATED BY PEACE CORPS, WHICH PROVIDES INTERNATIONAL TRANSPORTATION AND READJUSTMENT ALLOWANCES FOR CANDIDATES SELECTED AT UNV HEADQUARTERS IN GENEVA, FOR VOLUNTEER ASSIGNMENTS.

IN ADDITION TO RECRUITING AND SPONSORING AMERICAN UNV'S, PEACE CORPS PROVIDES THE UNITED STATES GOVERNMENT'S ANNUAL CONTRIBUTION TO THE UNV SPECIAL VOLUNTARY FUND TO HELP PAY INTERNATIONAL TRAVEL AND POST-SERVICE SETTLEMENT COSTS FOR VOLUNTEERS FROM DEVELOPING COUNTRIES WHICH HAVE NO SPONSORING ORGANIZATION OF THEIR OWN.

NEW COUNTRY ENTRY/EXITS

THIS PAST YEAR PEACE CORPS HAD NO FORMAL NEW COUNTRY ENTRIES OR EXITS. WE WORKED ON STRENGTHENING OUR VOLUNTEER FORCE AND PROGRAMS IN THE CURRENT 60 COUNTRIES SERVED BY PEACE CORPS.

PEACE CORPS COLLABORATION AGREEMENTS

IN AN EFFORT TO MORE FULLY MEET THE NEEDS OF THE PEOPLES IN THE DEVELOPING WORLD AND COORDINATE OUR PROGRAMS WITH SIMILAR OR COMPLIMENTARY ACTIVITIES INITIATED BY OTHER U. S. DEPARTMENTS, AGENCIES AND PVO'S PEACE CORPS CONTINUES TO BUILD ITS COLLABORATIVE EFFORTS WITH OTHER ORGANIZATIONS WORKING IN THE THIRD WORLD.

IN 1984 PEACE CORPS SIGNED A COLLABORATIVE AGREEMENT WITH USAID TO WORK ON THE COMBATTING CHILDHOOD COMMUNICABLE DISEASE PROJECT (CCCD). THIS PROJECT IS A MAJOR COOPERATIVE EFFORT OF AFRICAN NATIONS AND OTHER DONOR NATIONS TO REDUCE CHILDHOOD MORTALITY AND MORBIDITY THROUGH PROGRAMS AIMED AT PREVENTION AND CONTROL OF CHILDHOOD DISEASES, SPECIFICALLY, VACCINE PREVENTABLE DISEASES, DIARRHEAL DISEASES AND MALARIA IN CHILDREN 0 TO 5 YEARS OF AGE.

PEACE CORPS HAS ALSO BEEN WORKING WITH AID IN A TECHNICAL COLLABORATION IN NUTRITION PROGRAM CALLED HOME GARDENS. IN 1984 HOME GARDEN WORKSHOPS WERE CONDUCTED IN WESTERN SAMOA AND ECUADOR.

AS A RESULT OF FIELD TESTING IN HONDURAS AND THE EVALUATIONS AND RECOMMENDATIONS OF BOTH HONDURAN AND WESTERN SAMOAN PARTICIPANTS, THE TRAINING MANUAL ENTITLED NUTRITION IMPROVEMENT THROUGH MIXED GARDENING IN THE HUMID TROPICS WAS REVISED, EDITED AND PUBLISHED BY THE LEAGUE FOR INTERNATIONAL FOOD EDUCATION (LIFE) IN JULY OF 1984.

IN ADDITION TO THE COLLABORATION IN THE AREA OF HOME GARDENS, THE OFFICE OF NUTRITION AND THE PEACE CORPS RECENTLY CONDUCTED A SERIES OF HEALTH/NUTRITION IN-SERVICE TRAINING PROGRAMS FOR HEALTH/NUTRITION WORKERS AND THEIR COUNTERPART PEACE CORPS VOLUNTEERS IN DOMINICAN REPUBLIC AND MALI.

IN RESPONSE TO FIELD REQUESTS AID/PEACE CORPS HOME GARDEN WORKSHOPS ARE PLANNED FOR SIX COUNTRIES IN 1985 IN CENTRAL AFRICA REPUBLIC (CAR), THE GAMBIA, LESOTHO AND THAILAND. DEPENDING ON THE AVAILABILITY OF FUNDS WORKSHOPS MAY ALSO BE HELD IN CAMEROON AND SENEGAL.

IN FISCAL YEAR 1986 PEACE CORPS IS PLANNING TO WORK WITH THE DEPARTMENT OF AGRICULTURE ON THE NEWLY INITIATED AFRICA FOOD PROGRAM.

BETTER TRAINING

THE STRATEGY OF THE OFFICE OF TRAINING AND PROGRAM SUPPORT (OTAPS) IS TO SUPPORT THE REGIONS AND COUNTRIES BY PROVIDING A VARIETY OF TRAINING AND PROGRAMMING SERVICES BASED ON THEIR TECHNICAL EXPERTISE.

THIS LAST YEAR, AS ONE OF THE FOUR MAJOR UNITS WITHIN THE OFFICE OF INTERNATIONAL OPERATIONS, OTAPS FULFILLED FOUR MAJOR FUNCTIONS; TO PROVIDE PROGRAM DIRECTION TO THE PEACE CORPS; PROVIDE TECHNICAL ASSISTANCE TO REGIONAL AND FIELD STAFF; CONDUCT ON-GOING OPERATIONS; AND PERFORM STAFF FUNCTIONS FOR THE ASSOCIATE DIRECTOR OF INTERNATIONAL OPERATIONS.

OTAPS WILL CONTINUE TO PROVIDE THE FIELD WITH INFORMATION ON SECTOR-SPECIFIC PROGRAM MODELS THAT HAVE PROVEN EFFECTIVE, AND GENERIC MODELS FOR ADAPTATION TO SPECIFIC PROGRAM NEEDS BY VOLUNTEERS IN THE FIELD.

PEACE CORPS' WOMEN IN DEVELOPMENT (WID) PROGRAM IS WITHIN THE JURISDICTION OF THE OTAPS OFFICE. WE WILL CONTINUE TO INCORPORATE WID PURPOSES IN OUR VOLUNTEER PROGRAMS AND WITHIN THE AGENCY STRUCTURE.

THE OFFICE OF INFORMATION COLLECTION EXCHANGE (ICE) CONTINUES TO RESPOND TO AN INCREASING NUMBER OF TECHNICAL INFORMATION REQUESTS FROM THE DEVELOPING WORLD AND ORGANIZATIONS IN AND OUT OF THE UNITED STATES. ICE MATERIALS ARE RECOGNIZED AS A VALUABLE SOURCE OF VILLAGE TESTED TECHNICAL INFORMATION.

IN 1986 OTAPS WILL CONTINUE THE REVISION OF THE INTERAGENCY PROGRAMMING SYSTEMS MANUAL IN ORDER TO REFLECT RECENT CHANGES IN PROGRAMMING AND TRAINING POLICIES AND METHODS; AND IT WILL CONTINUE TO PUBLISH TECHNICAL MANUALS AND OTHER MATERIALS WHICH REPRESENT A SYNTHESIS OF FIELD (VOLUNTEER PROJECTS) GENERATED MATERIALS.

RELEVANT INFORMATION REFLECTING AGENCY-WIDE TRENDS IN PEACE CORPS PROGRAMMING AND TRAINING WILL ALSO CONTINUE TO BE PROVIDED TO THE OFFICE OF INTERNATIONAL OPERATIONS.

PRIVATE SECTOR SUPPORT INCREASING PEACE CORPS PARTNERSHIP BENEFITS

SINCE ITS INCEPTION IN 1964, THE PEACE CORPS PARTNERSHIP PROGRAM HAS PROVIDED THOUSANDS OF AMERICANS WITH THE OPPORTUNITY TO PARTICIPATE IN VITAL PROJECTS UNDERTAKEN BY VOLUNTEERS AND THEIR HOST COUNTRY COMMUNITIES. THE PARTNERSHIP PROGRAM IS NOW INCLUDED WITHIN THE OFFICE OF PRIVATE SECTOR DEVELOPMENT (OPSD) WHICH WAS CREATED IN DIRECT RESPONSE TO THIS ADMINISTRATION'S STRONG EMPHASIS ON PRIVATE SECTOR INITIATIVES.

OPSD MARKED FISCAL YEAR 1984 WITH A CAMPAIGN CELEBRATING THE PARTNERSHIP'S 20TH ANNIVERSARY. THIS CAMPAIGN RESULTED IN A RECORD $220,514.92 IN DONATIONS FROM THE PRIVATE SECTOR, OF WHICH, $65,279.71 WERE CONTRIBUTED BY 21 CORPORATIONS AND FOUNDATIONS. MORE FUNDS WERE RAISED DURING THIS CAMPAIGN THAN DURING THE PREVIOUS 3 YEARS COMBINED. AS A RESULT OF THIS CAMPAIGN 115 SMALL-SCALE PROJECTS, RANGING IN COST FROM $500 TO $5,000, WERE FUNDED.

CURRENTLY, OPSD IS FOCUSING ON THE FOLLOWING AREAS OF ACTIVITY:

- CONTINUED ACQUISITION OF IN-KIND CONTRIBUTIONS AND SERVICES TO SUPPORT PROJECTS UNDERTAKEN BY VOLUNTEERS;
- SECURING FINANCIAL ASSISTANCE FOR THE IMPLEMENTATION OF SPECIFIC PROJECTS THROUGH THE PEACE CORPS PARTNERSHIP PROGRAM, AND COORDINATING CROSS-CULTURAL EXCHANGES BETWEEN THE U.S. AND OVERSEAS PARTNERS; AND
- EDUCATING AMERICANS ABOUT THE DEVELOPING WORLD WITH EMPHASIS ON HELPING THEM LEARN MORE ABOUT THE COMMUNITIES WHERE OUR VOLUNTEERS LIVE AND WORK.

RECRUITMENT

PEACE CORPS CONTINUES TO IMPROVE RECRUITMENT THROUGH PUBLIC AWARENESS. THE PEACE CORPS AWARENESS CAMPAIGN FOCUSES ON BOTH THE GENERAL PUBLIC AND ON SPECIFIC GROUPS WITH SPECIAL SKILLS SOUGHT BY HOST COUNTRIES SUCH AS AGRICULTURE, HEALTH AND SMALL ENTERPRISE DEVELOPMENT.

AS A CONTINUING GOAL TO INCREASE MINORITY RECRUITMENT AND TO SUPPORT THE EXPANDED PEACE CORPS PRESENCE IN CENTRAL AMERICA AND IN AFRICA

SPECIFIC RECRUITMENT CAMPAIGNS HAVE BEEN DIRECTED TOWARD THE SPANISH-SPEAKING AND BLACK COMMUNITIES. LAST FALL PEACE CORPS HOSTED A SYMPOSIUM FOR THE HISTORICALLY BLACK COLLEGES AND UNIVERSITIES SEEKING THEIR ASSISTANCE IN RECRUITING BLACK AMERICANS FOR PEACE CORPS SERVICE. I AM HAPPY TO REPORT THAT WE HAVE ALREADY RECRUITED BLACK AMERICAN CANDIDATES AS A RESULT OF THIS EFFORT.

LAST MONTH I HAD THE PLEASURE OF FORMALLY OPENING A PEACE CORPS RECRUITMENT OFFICE IN MIAMI WHERE AN EMPHASIS IS BEING MADE ON RECRUITING SPANISH-SPEAKING VOLUNTEERS FOR OUR INITIATIVE FOR CENTRAL AMERICA PROGRAMS.

ANOTHER RECRUITMENT UNDERWAY IS OUR CALL FOR OLDER AMERICANS TO BECOME VOLUNTEERS OVERSEAS. A MAJOR ACCOMPLISHMENT IN THIS AREA WAS OUR NATIONWIDE APPEAL FOR PEOPLE WITH AGRICULTURE OR AGRICULTURE RELATED SKILLS TO HELP FIGHT FAMINE IN AFRICA. THOUSANDS OF OLDER AMERICANS HAVE RESPONDED TO THIS CALL. IN ADDITION, MAILINGS TO OLDER AMERICANS AND CONTACTS WITH AMERICAN CORPORATIONS WHO HAVE WILLINGLY MADE AVAILABLE PEACE CORPS VOLUNTEER INFORMATION TO THEIR RETIRING EMPLOYEES, HAVE RESULTED IN MORE INQUIRIES FROM THIS VALUABLE SOURCE OF POTENTIAL AMERICAN VOLUNTEERS.

IN 1984 THE PEACE CORPS' RECRUITING OFFICE HANDLED OVER 160,000 INQUIRIES. IN 1986 THE PEACE CORPS WILL CONTINUE TO IMPROVE ITS RECRUITING TECHNIQUES.

PLACEMENT

THE PLACEMENT UNIT WAS RESPONSIBLE FOR PLACING 2781 NEW VOLUNTEERS IN FISCAL YEAR 1984. OUR NEW VOLUNTEER LEVEL IN 1985 WILL ONCE AGAIN INCREASE BY PLACING AN ESTIMATED 3,200 NEW VOLUNTEERS IN THE FIELD. ABOUT 3,000 TRAINEES IS

PROJECTED FOR FISCAL YEAR 1986 BECAUSE OF THE AFRICA FOOD INITIATIVE AND INITIATIVE ON CENTRAL AMERICA.

AS TRADITIONAL WITH PEACE CORPS, CANDIDATES WILL BE SCREENED AND RECEIVE INTRODUCTION TO PEACE CORPS TRAINING CURRICULUM PRIOR TO OVERSEAS DEPARTURE.

ABOUT 575 CANDIDATES WILL GO THROUGH THE CENTER FOR ASSESSMENT AND TRAINING (CAST) IN FISCAL YEAR 1985. THIS EIGHT DAY PROGRAM PROVIDES SCREENING FOR THE MOST SENSITIVE AND DIFFICULT PEACE CORPS ASSIGNMENTS.

THE FIVE DAY CREST PROGRAM, A BRIEFER AND LESS EXPENSIVE TRAINING PROGRAM THAN THE CAST, WILL BE USED WHEN TRAINING RATHER THAN SELECTION IS THE MAJORITY PRIORITY. IN KEEPING WITH RECENT GAO RECOMMENDATIONS WE WILL BE CREST'ING MORE CANDIDATES THIS YEAR AS MORE AND MORE COUNTRIES FIND THIS METHOD A STRONG PREPARATION FOR NEW VOLUNTEERS.

OVER THE PAST YEARS THE CREST FORM OF STAGING HAS PROVEN HIGHLY POPULAR WITH HOST COUNTRY GOVERNMENTS, PEACE CORPS VOLUNTEERS, AND STAFF.

THE TRADITIONAL COMPREHENSIVE STAGING PROGRAM RUNS 3½ DAYS AND PROVIDES INITIAL TRAINING AND ORIENTATION, BUT IT DOES NOT PROVIDE EXTENSIVE SELECTION OR TRAINING.

IN FISCAL YEAR 1986 WE EXPECT THAT FEWER THAN 400 CANDIDATES WILL RECEIVE CAST TRAINING BECAUSE OF OUR EMPHASIS ON CREST AND AS THIS MORE COST EFFECTIVE PROGRAM BECOMES OUR AGENCY'S MAJOR MODEL.

IN FISCAL YEAR 1984 THE ACCEPTANCE RATE BY AMERICANS TO BECOME PEACE CORPS VOLUNTEERS WAS UP FROM 64% TO 68%--AN INCREASE OF 4 PERCENT. WE ATTRIBUTE THIS

ACCEPTANCE RATE INCREASE TO BETTER HANDLING OF VOLUNTEER CANDIDATES THROUGHOUT OUR ENTIRE DELIVERY SYSTEM.

IN 1985 WE WILL CONTINUE TO IMPROVE UPON OUR AUTOMATED SYSTEMS WHICH IS HELPING US TO DEVELOP THE MOST COST-EFFECTIVE METHODS FOR THE PLACEMENT OF VOLUNTEERS OVERSEAS.

OUR PLACEMENT GOALS FOR FISCAL YEAR 1986 WILL FOCUS ON PEACE CORPS INITIATIVE FOR CENTRAL AMERICA (IFCA) AND THE AFRICA FOOD INITIATIVE AS WELL AS TO IMPROVE THE EFFICIENCY OF THE PLACEMENT OPERATIONS WHILE NOT ONLY MAINTAINING BUT INCREASING THE QUALITY OF VOLUNTEERS OVERSEAS.

IMPROVED MANAGEMENT

THE OFFICE OF MANAGEMENT ASSISTS IN THE ACCOMPLISHMENT OF AGENCY OPERATING GOALS AND OBJECTIVES BY PROVIDING ADMINISTRATIVE MANAGEMENT SUPPORT TO DOMESTIC AND OVERSEAS OPERATIONS, AND DIRECT SUPPORT TO VOLUNTEERS AND PROSPECTIVE VOLUNTEERS IN THE OF MEDICAL SUPPORT SERVICES.

IN FISCAL YEAR 1984 OUR MANAGEMENT OFFICES:

- CONTINUED TO PROVIDE AN EFFECTIVE VOLUNTEER HEALTH CARE PROGRAM, PUBLISHED NEW AND EXPANDED TECHNICAL GUIDELINES FOR OUR OVERSEAS MEDICAL STAFF, AND CONDUCTED RESEARCH IN SUCH AREAS AS: RABIES VACCINE, FILARIASIS PREVENTION, AND ADMINISTRATION OF HEPATITIS "B" VACCINE;
- COMPLETED THE REVISION OF THE PEACE CORPS POLICY AND PROCEDURES MANUAL AND DISTRIBUTED IT TO OVERSEAS POSTS;

- FIELD TESTED THE COUNTRY MANAGEMENT PLAN HANDBOOK, WHICH PROVIDES THE FRAMEWORK FOR THE DEVELOPMENT OF COUNTRY OPERATING PLANS AND BUDGETS, AND A COUNTRY PROGRAM REVIEW/MONITORING SYSTEM WHICH WILL PROVIDE AN ONGOING SELF-ASSESSMENT TOOL FOR OVERSEAS POSTS;
- ACQUIRED AN AUTOMATED TRAVEL RESERVATION SYSTEM WHICH ENABLES US TO HAVE ON-LINE ACCESS TO AIRLINE SCHEDULES AND FARES, MAKE DIRECT "BOOKINGS," AND OBTAIN DETAILED ITINERARIES;
- COMPLETED PHASE II OF OUR "OVERSEAS COMPUTER INITIATIVE" WHICH WILL PLACE MICRO-COMPUTERS AND STANDARD APPLICATIONS PROGRAMS IN OUR POSTS OVERSEAS TO REDUCE PAPERWORK AND TEDIOUS MANUAL CALCULATIONS, AND TO STANDARDIZE PROGRAM AND FINANCIAL DATA;
- ACHIEVED A FOUR-YEAR REPLACEMENT CYCLE FOR OVERSEAS VEHICLES; AND
- ESTABLISHED A HEADQUARTERS UNIT TO IMPROVE LOGISTICAL SUPPORT TO OVERSEAS, AND TO MAXIMIZE COST SAVINGS THROUGH QUANTITY PURCHASES (E.G. MOTORCYCLE HELMETS).

IN 1986 THE MANAGEMENT OFFICE WILL CONTINUE ITS GOAL OF ACHIEVING EXCELLENCE IN ITS ADMINISTRATIVE MANAGEMENT SUPPORT FUNCTIONS.

PEACE CORPS 25 YEARS OLD

WE HAVE BEGUN PREPARATION FOR PEACE CORPS' 25TH ANNIVERSARY WHICH WILL BE CELEBRATED BEGINNING IN OCTOBER OF THIS YEAR THROUGH SEPTEMBER OF 1986. THE EVENTS BEING PLANNED WILL PROVIDE AN OPPORTUNITY FOR CREATIVE AND INNOVATIVE

THINKING ABOUT HOW PEACE CORPS CAN BETTER RESPOND TO THE EMERGING LONG-TERM NEEDS OF THE DEVELOPING WORLD IN THE YEARS TO COME.

AS THE 25TH ANNIVERSARY APPROACHES WE ALSO LOOK BACK WITH PRIDE AT THE MANY SUCCESSFUL VOLUNTEER PROJECTS AND PROGRAMS NOW CONTINUING UNDER THE DIRECTION OF HOST COUNTRY NATIONALS. I WOULD LIKE TO GIVE YOU A FEW SUCH EXAMPLES WHICH ATTEST TO THE SUCCESSFUL TRANSFER OF SKILLS AND TECHNOLOGY BY PEACE CORPS VOLUNTEERS TO THEIR COUNTERPARTS AROUND THE DEVELOPING WORLD.

AGRICULTURE

FOOD AND FUEL CONSERVATION

IN AUGUST 1983, A FOOD PRESERVATION WORKSHOP WAS HELD IN BELIZE WITH 30 MEN AND WOMEN PARTICIPATING, INCLUDING PEACE CORPS VOLUNTEERS AS WELL AS INTERESTED LOCAL WOMEN. AT THIS TIME THE HAYBOX, AN INSULATED CONTAINER, WAS INTRODUCED. MADE WITH HAY AND SCRAP CARDBOARD, IT IS VERY INEXPENSIVE. IT IS USED FOR "FIRELESS COOKING." THE OBJECT IS TO BRING FOOD TO A BOIL, LET IT SIMMER BRIEFLY AND THEN TO PLACE THE POT IN THE HAYBOX WHERE IT WILL CONTINUE TO COOK WITHOUT FURTHER SUPERVISION OR FUEL.

THE HAYBOX NOT ONLY CONSERVES EXPENSIVE GAS IN THE LENGTHY PROCESS OF COOKING BEANS (A MAIN FOOD STAPLE) BUT ALSO ENABLES WOMEN TO DO OTHER WORK OUTSIDE THEIR HOMES WITHOUT CONCERN FOR THE SAFETY OF THEIR CHILDREN AS THERE IS NO OPEN COOKING FIRE LEFT UNATTENDED.

WITHIN SIX MONTHS AFTER THE WORKSHOP THE ASSOCIATE PEACE CORPS DIRECTOR, LINDA BORST, REPORTED THAT "EVERY FAMILY IN BELIZE NOW HAS A HAY BOX." DUE TO

THE IMMENSE SUCCESS AND ACCEPTANCE OF THE HAYBOX, ITS USE IS EXPECTED TO SPREAD TO GUATEMALA.

FORESTRY PROJECT

FROM 1968-1974, OVER 50 PEACE CORPS VOLUNTEERS WORKED IN NORTHERN MOROCCO TO HELP REFOREST SEVERAL ERODED AREAS. THESE LANDS NOW HAVE FULL GROWN PINE, EUCALYPTUS, AND OLIVE TREES WITH MUCH ECONOMIC IMPORTANCE TO LOCAL COMMUNITIES.

THIS PROGRAM IS NOW CONTINUING WITH THE MINISTRY OF AGRICULTURE, SERVICE OF WATERS AND FORESTS. GENERALLY, PEACE CORPS VOLUNTEERS WERE REPLACED BY MOROCCAN UNIVERSITY GRADUATES. THE PEACE CORPS IS NO LONGER INVOLVED AND IS UNAWARE OF ANY OTHER OUTSIDE SUPPORT.

TECHNOLOGY TRANSFER

POTTERY MANUFACTURE

FROM 1968 - 1970 IN CABA, A SMALL TOWN IN NORTHERN LUZON, PHILIPPINES, PEACE CORPS VOLUNTEER KATHLEEN JUDGE BECAME INVOLVED WITH A GROUP OF POTTERS 3 KILOMETERS FROM HER VILLAGE. THESE VILLAGERS HAD EXPRESSED A NEED TO UPGRADE THEIR SKILLS, IMPROVE THEIR PRODUCT, FACILITIES, ETC...

THE VOLUNTEER HAD PREVIOUSLY HAD A GREAT DEAL OF TRAINING AND EXPERIENCE IN CERAMICS IN THE UNITED STATES. SHE TEAMED UP WITH A JAPANESE OVERSEAS COOPERATION VOLUNTEER (JOVC) WHO WAS AN ENGINEER SENT TO THE PHILIPPINES AS A CERAMIC ADVISOR. TOGETHER THEY SOUGHT AND RECEIVED FUNDING FROM THE PHILIPPINE GOVERNMENT (3000 PESOS) IN ORDER TO ASSIST THE VILLAGERS IN THE BUILDING OF KILNS, IMPROVING PRODUCTS, ETC.

THE VILLAGERS HAD SINCE BUILT 3 MORE SHELTERS, MANY MORE KILNS ARE NOW IN OPERATION, NEW METHODS HAVE BEEN DEVELOPED AND NEW PRODUCTS ARE BEING PRODUCED. ONE OF THE PRODUCTS INCLUDES CLAY WELL LINERS USED IN PURIFYING WATER.

THE FORMER VOLUNTEER IS DELIGHTED WITH ITS SUCCESS AND GRATIFIED THAT THE VILLAGERS INSTANTLY RECOGNIZED HER AFTER 13 YEARS.

SWEATER PRODUCTION

IN 1965, THE PEACE CORPS INITIATED HAND-KNIT SWEATER PRODUCTION AMONG 40 WOMEN IN MIRA, A VILLAGE IN NORTHERN ECUADOR. THE MIRENAS HAVE SINCE DEVELOPED A COTTAGE INDUSTRY WITH 1,000 FAMILIES PRODUCING 6,000 SWEATERS MONTHLY IN 1979. THE INDUSTRY HAS SPREAD OVER TWO PROVINCES AS MIRENAS EXTENDED EMPLOYMENT AND CREDIT TO EVEN MORE ISOLATED RURAL WOMEN.

WOMEN IN MIRA ARE ECONOMIC ACTORS IN THEIR OWN RIGHT WHO MAKE IMPORTANT CONTRIBUTIONS TO LOCAL AND NATIONAL DEVELOPMENT. ENTIRELY DOMINATED BY RURAL WOMEN, MIRA'S SWEATER INDUSTRY IS AN EXAMPLE OF AUTONOMOUS COMMUNITY DEVELOPMENT BASED ON THE ELABORATION OF EXTENDED FAMILY EXCHANGE NETWORKS.

BUSINESS

IN THE KINGDOM OF TONGA, PEACE CORPS VOLUNTEER BERNIE LOVITKY, A RETIRED OLDER AMERICAN, BECAME INVOLVED IN A PROJECT TO RESURRECT A FALTERING CONSUMER COOPERATIVE WHICH SOLD WHOLESALE GROCERIES TO CO-OPS THROUGHOUT TONGA. BECAUSE OF BERNIE'S EXTENSIVE EXPERIENCE AND BACKGROUND IN BUSINESS IN THE UNITED STATES, HE WAS APPROACHED TO ACT AS A CONSULTANT TO THE CO-OP.

BERNIE BECAME INVOLVED IN ALL ASPECTS OF THE BUSINESS. HE HANDLED PERSONNEL, PURCHASING AND SELLING. THE CO-OP HAD BEEN IN BUSINESS FOR 10 YEARS AND WAS ON

THE VERGE OF BANKRUPTCY. BERNIE'S CONCERN WAS TO AVOID THE MISTAKES OF THE PAST AND THUS WAS SENSITIVE TO THE NECESSITY TO START SLOWLY AND TO OPERATE WITHIN THE PARAMETERS OF THE TONGAN CULTURE AND ITS NEEDS.

INITIALLY, BERNIE AND HIS TONGAN ASSISTANTS SET OUT TO INSURE THE RELIABILITY OF DELIVERY TO THE STORES, MAKING IT AN ORGANIZED AND DEPENDABLE SYSTEM. THROUGH CAUTIOUS BUYING--GEARED FOR TONGAN CONSUMER PREFERENCE, SECURING SHIPPING AND RETAILERS' REBATES, ADVERTISING IN NEWSPAPERS AND RADIO--THE CO-OP QUICKLY BEGAN TO EXPERIENCE SUCCESS.

IN THE TIME THAT BERNIE WORKED WITH THE CO-OP, 1982-1984, THE PROFIT STRUCTURE WENT FROM 4% TO 9%. THE CO-OP'S GROSS VOLUME WENT FROM $20,000 (U.S.) IN 1982 TO $223,000 (U.S.). THE GROSS VOLUME FOR 1985 IS EXPECTED TO REACH $3,000,000 (U.S.). WHEN BERNIE LEFT HE WAS REPLACED BY A TONGAN AND THE CONSUMER CO-OP IS NOW COMPLETELY MANAGED BY THE TONGAN PEOPLE.

WHILE BERNIE'S ENTHUSIASM AND EXPERIENCE IN BUSINESS PROVIDED NEW DIRECTION FOR THE CO-OP, HE EMPHASIZED THAT THE PROJECT'S SUCCESS WAS DUE TO THE INCREDIBLE MOTIVATION AND HARD WORK OF THE TONGANS.

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THE SUCCESSFUL PROGRAMS OF THE PAST BUILD A FIRM FOUNDATION FOR THE FUTURE. THERE CONTINUES TO BE A NEED FOR PEACE CORPS PRESENCE BECAUSE THE BASIC PROBLEMS WE ADDRESS PERSIST IN DEVELOPING COUNTRIES: HUNGER AND MALNUTRITION, INFANT MORTALITY, POVERTY, ILLITERACY AND LIMITED EDUCATIONAL OPPORTUNITIES, INADEQUATE HEALTH CARE AND DECLINING NATURAL RESOURCES. WE KNOW SOLVING THESE CHALLENGES IS A LONG-TERM PROCESS.

DEVELOPING COUNTRIES MUST RELY ON THEIR OWN HUMAN RESOURCES TO ENSURE LONG-TERM SOLUTIONS TO THESE PROBLEMS AND CHALLENGES. PEACE CORPS HAS AND WILL CONTINUE TO PLAY A VITAL ROLE IN THIS PROCESS BY PROVIDING THE TRANSFER OF TECHNOLOGY AND SKILLS TO HELP MAKE PEOPLE IN THE DEVELOPING WORLD SELF-SUFFICIENT.

PEACE CORPS VOLUNTEERS WORK IN CLASSROOMS AROUND THE WORLD; FISHERIES VOLUNTEERS TEACH VILLAGERS RELATIONSHIPS BETWEEN ENVIRONMENT AND DISEASE, AND SMALL BUSINESS AND COOPERATIVE VOLUNTEERS ASSIST LOCAL PEOPLE TO IMPROVE PRODUCTION AND ESTABLISH PROFIT MAKING VENTURES.

THE EFFECTIVENESS OF PEACE CORPS HAS BEEN ENDORSED BY LEADERS OF HOST COUNTRY GOVERNMENTS IN THIS COUNTRY AND IN THEIRS. PEACE CORPS IN THE NEXT 25 YEARS WILL CONTINUE TO FORM TIES OF FRIENDSHIP BETWEEN THIS COUNTRY AND THE DEVELOPING WORLD. IT WILL HELP THOSE LESS FORTUNATE THAN OURSELVES BUILD UP TODAY WHAT WILL LAST FOR A VERY, VERY LONG TIME TO COME. AND, MUCH MORE, PEACE CORPS WILL CONTINUE TO BRING TO OUR FELLOW AMERICANS AN UNDERSTANDING OF THE PEOPLES OF OTHER NATIONS, AND LIKEWISE BRING TO THOSE INDIVIDUALS, AN UNDERSTANDING OF OUR NATIONS' CITIZENS.

BUDGET REQUEST

THIS PRESENTATION SUPPORTS THE ADMINISTRATION'S REQUEST TO THE CONGRESS TO AUTHORIZE THE AMOUNT OF $124.4 MILLION DOLLARS FOR PEACE CORPS FOR FISCAL YEAR 1986.

WITH THIS FUNDING WE BELIEVE WE WILL BE ABLE TO MAINTAIN STABILITY IN OUR ON-GOING PROJECTS AND INITIATE THE AFRICAN FOOD PROGRAM BY MORE EFFECTIVE USE OF OUR RESOURCES, REDUCING TRAVEL COSTS AND OTHER ADMINISTRATIVE OVERHEAD.

WE WILL RECRUIT 3,000 NEW VOLUNTEERS AND SUPPORT 4,862 VOLUNTEER YEARS OF SERVICE IN AFRICA, THE CARIBBEAN BASIN, CENTRAL AND SOUTH AMERICA, THE MIDDLE EAST AND PACIFIC.

PEACE CORPS PLANS TO OPERATE IN 63 COUNTRIES, WITH THREE NEW COUNTRY ENTRIES, PANAMA AND EQUATORIAL GUINEA, GUINEA CONAKRY. PROGRAM LEVELS WILL REMAIN RELATIVELY UNCHANGED FROM 1985.

SEVERAL THEMES HAVE FORMED THE FOUNDATION FOR SUCCESSFUL PEACE CORPS PROGRAMS IN THE PAST AND WILL CONTINUE TO BE EMPHASIZED IN 1986. THE FIRST IS THE SPIRIT OF PARTNERSHIP WITH THE DEVELOPING WORLD. WE WILL ENSURE THAT PROJECTS NOT ONLY RESPOND TO THE CHANGING PRIORITIES AND BASIC NEEDS OF THE PEOPLE PEACE CORPS SEEKS TO SERVE, BUT ALSO THAT PROJECTS ARE JOINTLY DEVELOPED, IMPLEMENTED AND SUPPORTED BY OUR HOST COUNTRIES.

SECOND, IS OUR FOCUS ON HELPING OTHERS BETTER MEET THEIR OWN BASIC NEEDS. THIS CENTRAL TENET OF PRESIDENT REAGAN'S DEVELOPMENT ASSISTANCE PHILOSOPHY HAS LONG BEEN SUPPORTED BY PEACE CORPS. THIS MEANS ENSURING THAT VOLUNTEER PROJECTS ARE DESIGNED NOT ONLY TO PROVIDE TRAINED MANPOWER, BUT ALSO TO HELP DEVELOP WITHIN HOST COUNTRY CITIZENS THE SKILLS NEEDED FOR GREATER SELF-SUFFICIENCY, PARTICULARLY IN FOOD PRODUCTION, AND ECONOMIC SELF-SUFFICIENCY.

THIRD, PEACE CORPS WILL CONTINUE TO PLACE VOLUNTEERS WHERE THEY CAN HAVE THE GREATEST EFFECT. THIS WILL MEAN A CONTINUOUS REVIEW OF CURRENT PROGRAMS, SPECIAL ATTENTION TO SOME COUNTRIES WHERE PEACE CORPS VOLUNTEERS ARE NOT CURRENTLY SERVING, AND PRIORITY GIVEN TO ASSIGNMENTS WHERE VOLUNTEERS SERVE AS CATALYSTS AND WHERE THEIR EFFORTS WILL HAVE A LASTING MULTIPLIER EFFECT.

IN 1986 PEACE CORPS REGIONAL PROGRAMS WILL MOVE AHEAD IN THE CONTEXT OF THESE THEMES. THE AFRICA REGION WILL RECRUIT 1,280 NEW VOLUNTEERS. WE ARE MOVING AHEAD, AS I SAID EARLIER TO ADDRESS THE GROWING FOOD PROBLEM IN AFRICA WITH OUR FOOD INITIATIVE.

IN THE INTER-AMERICA REGION, WHERE THE VAST MAJORITY OF THE POPULATION IS LIVING AT THE POVERTY LEVEL, PEACE CORPS PLANS TO FIELD 975 NEW VOLUNTEERS. OUR INTENT IS TO CARRYING OUT THE DESIRE OF CONGRESS AND THE ADMINISTRATION IN CENTRAL AMERICA. REGIONAL PROGRAMS IN THE INTER-AMERICAN REGION WILL CENTER ON EDUCATION, SMALL BUSINESS DEVELOPMENT, ENVIRONMENTAL EDUCATION/MANAGEMENT, HEALTH, NUTRITION AND SANITATION, SELF-HELP HOUSING, AND NEEDED BASIC TECHNOLOGY, AGRICULTURE AND FISHERIES. THE NEEDS OF CENTRAL AMERICA WILL RECEIVE PRIORITY.

THE REGION OF NORTH AFRICA, NEAR EAST, ASIA AND PACIFIC (NANEAP) WILL RECEIVE 680 NEW VOLUNTEERS IN 1986. PROGRAMS IN THIS AREA ARE CLOSELY TIED TO HOST COUNTRY PRIORITIES EXPRESSED IN THEIR LONG-TERM DEVELOPMENT PLANS. PROJECTS INVOLVE EXPANDING AGRICULTURAL PRODUCTION, INCREASING RURAL HEALTH SERVICES AND POTABLE WATER, EXPANDING SMALL BUSINESS AND PRIVATE SECTOR OPPORTUNITIES AND IMPROVING EDUCATIONAL OPPORTUNITIES.

IN THE MID-EIGHTIES AMERICA AND THE NATIONS OF THE FREE WORLD FACE THE CHALLENGE OF FIGHTING THE FAMINE IN AFRICA, ILLITERACY AND HUMAN SUFFERING THROUGHOUT OUR GLOBE. THROUGH THE COMMITMENT OF ALL COUNTRIES AND WITH THE DEDICATION OF DEVELOPMENT INSTITUTIONS LIKE AID, OTHER BILATERAL DONORS, PEACE CORPS AND PRIVATE VOLUNTARY ORGANIZATIONS, THE GOAL OF SELF-SUFFICIENCY FOR PEOPLES OF THE DEVELOPING WORLD CAN BE REALIZED.

THERE ARE, AS I SAID EARLIER, NO QUICK FIXES OR EASY SOLUTIONS. DEVELOPMENT IS DONE THROUGH LONG-TERM COMMITMENTS. AS PEACE CORPS MOVES FORWARD TO MEET THIS CHALLENGE WE KNOW IT IS AN AMBITIOUS MISSION AND WE MUST DRAW HEAVILY ON THE LESSONS--AND SHORTCOMINGS--OF THE PAST.

IF THERE IS TO BE PEACE ON EARTH, AND THAT DOES NOT JUST MEAN THE ABSENCE OF WAR, BUT THE ABSENCE OF THOSE CONDITIONS THAT CAUSE WAR, SUCH AS HUNGER, DISEASE AND DESPAIR, THEN THERE IS A GREATER NEED THAN EVER BEFORE FOR AMERICANS TO JOIN HANDS WITH THEIR NEIGHBORS ACROSS THE SEAS AND BORDERS TO ADDRESS AND CURE THESE RAVAGES OF HUMAN SUFFERING.

THE MISSION HAS BEEN IDENTIFIED AND THE AMERICAN PEOPLE HAVE COME FORTH WITH AN OUTPOURING OF WILLINGNESS TO SERVE. AS PRESIDENT REAGAN SAID IN HIS BUDGET ADDRESS, "THE RESPONSE TO THE PEACE CORPS' CALL FOR VOLUNTEERS IS A TRUE EXAMPLE OF THE VALUES OF THE AMERICAN PEOPLE."

WE AT PEACE CORPS ARE FULLY AWARE OF THE TRUE VALUES OF THE AMERICAN PEOPLE--FOR OVER 110,000 RETURNED PEACE CORPS VOLUNTEERS ATTEST TO THAT STATEMENT.

OUR NATION HAS FOUGHT WARS WHEN TERRITORIES AND HUMAN RIGHTS WERE THREATENED--WE MUST NOW FIGHT WITH DIFFERENT TOOLS, THE TOOLS OF SHARED BASIC TECHNOLOGY AND THE TRANSFER OF SKILLS IN ORDER TO WIN THE WAR OVER HUMAN SUFFERING AND TO CREATE A WORLD ATMOSPHERE OF PEACE AND FRIENDSHIP. THANK YOU.

Statement of the
U.S. OVERSEAS COOPERATIVE DEVELOPMENT COMMITTEE (OCDC)
to the
Senate Foreign Relations Committee
U.S. Senate
March, 1985

I. INTRODUCTION

The U.S. Overseas Cooperative Development Committee appreciates this opportunity to present a statement for the record in support of the U.S. Foreign Assistance Program.

Formed in 1961, Overseas Cooperative Development Committee (OCDC) consists of senior representatives from the sixteen U.S. cooperative organizations listed below and the World Council of Credit Unions. More than 60 million Americans are served by these cooperative organizations.

Agricultural Cooperative Development International (ACDI), Washington, D.C.
Association of Texas Electric Cooperatives, Austin, Texas
American Institute of Cooperation (AIC), Washington, D.C.
Blue Ridge Electric Membership Corporation, Lenoir, North Carolina
CARE, New York, New York
CENEX, Minneapolis, Minnesota
Cooperative Housing Foundation (CHF), Washington, D.C.
Cooperative League of the USA (CLUSA), Washington, D.C.
Farmland Industries, Kansas City, Missouri

Land O'Lakes, Minneapolis, Minnesota

League Insurance Companies, Detroit, Michigan

National Council of Farmer Cooperatives, Washington, D.C.

National Farmers Union, Denver, Colorado

National Rural Electric Cooperative Association (NRECA), Washington, D.C.

Volunteers in Overseas Cooperative Assistance (VOCA), Washington, D.C.

World Council of Credit Unions (WOCCU), Madison, Wisconsin

II. GOAL OF OCDC

The Overseas Cooperative Development Committee provides a focal point for cooperation among private sector U.S. cooperative organizations in their international work. Its goal is to help establish or strengthen cooperative organizations in developing countries by adapting some of the cooperative self-help techniques that have been so successful here in the United States.

III. INTERNATIONAL WORK OF U.S. COOPERATIVES

U.S. cooperative organizations have a long history of working in developing countries. The first efforts in the late 1950s and early 1960s were focused on Latin America and the Caribbean and later expanded to Asia and Africa. Although cooperatives take different forms, they are normally established as private sector, not-for-profit business enterprises which are operated for the benefit of their members. They are democratically controlled through the principle of "one member, one vote".

In developing countries, they can offer poor people a way to help themselves with a minimum of outside assistance. The cooperative concept is readily acceptable and understood throughout the developing world. Cooperatives can be used to increase productivity in both rural and urban areas. Cooperatives can help small farmers to pool their resources to purchase fertilizer, seeds, farm implements, transport goods and expand their markets. They can help urban people with self-help home improvement or obtain credit for small business enterprises. Experience has shown that low income people will save and contribute their limited resources to a cooperative enterprise which they view as an opportunity for their own economic advancement.

Funding for much of this international work is provided by the U.S. Agency for International Development (AID), local governments and cooperatives in developing countries. There has also been some financial support from the World Bank, regional development banks, the United Nations Development Program (UNDP), the United Nations Capital Development Fund (UNCDF) and the Organization of American States (OAS). The cooperative members in developing countries provide substantial amounts of money and human resources for these activities. For example, the 3 million members of Credit Union Cooperatives in Latin America have mobilized more than one billion dollars in assets through their savings. The member organizations of OCDC have extensive reports and other material available on the results of these overseas programs and will provide copies upon request.

IV. COOPERATIVES' ROLE IN PROMOTING DEMOCRACY

For many years, AID focused primarily on economic and social development and there was little discussion of the political impact of these programs. Recent events in Central America and elsewhere have caused changes in this approach and as a result the inter-relationship of political, social, and economic aspects is being intensely studied and debated.

OCDC strongly supports the efforts of Congress and AID to promote democratic principles and democratic political systems as an integral part of our foreign assistance programs. Experience has shown that social and economic development efforts are not very effective in countries where there is repression of individual freedom by governments of the extreme left or extreme right. We believe the U.S. should be in the business of promoting democracy worldwide as part of its development assistance program.

A true cooperative is really a democracy in miniature. They are controlled by democratic principles of one member with one vote. The members elect their board of directors and exercise vigilance over fiscal and management matters. A cooperative is basically a private sector economic enterprise that also has value in promoting social and political development.

We believe that there are very important benefits from the development of true U.S.-type cooperatives in the developing countries where there is no history of democracy. Cooperatives can offer a way for people to participate in a democratic exercise at the community level even where the national system is undemocratic in nature.

U.S.-type cooperatives are quite different from the so-called "cooperatives" of Russia, Eastern Europe, Cuba or Nicaragua. Their system is basically "top down" in nature. They are controlled by the governments through something called "Democratic Centralism". In contrast, the U.S.-style cooperatives are clearly private sector entities developed on true democratic principles.

AID has supported the development of cooperatives with the technical assistance from U.S. cooperative development organizations (CDOs) for more than 20 years. There is a strong legislative history of bipartisan support from Congress to continue and expand these private sector, self-help programs. We are pleased to note that the AID Congressional Presentation for Fiscal Year 1986 continues this support.

V. SPECIAL CONCERNS FOR FISCAL YEAR 1986

We have briefly reviewed the AID FY 1986 Congressional Presentation and would like to note the following initial areas of concern.

A. Overall Funding Levels

The proposed FY 1986 total AID Economic Assistance amount of $4.966 billion is significantly lower than the actual level for FY 1985 which exceeded $6.646 billion.

In view of the increasing worldwide need as a result of recent events such as the famine in Africa, and the desperate situation facing the fragile democracies in many countries, we strongly recommend an overall level at least equal to the actual level spent in FY 1985. The increased amounts should include sufficient Development Assistance Funds (DAF) to bring that category back into balance with Economic Support Funds (ESF).

B) Latin America and the Caribbean

During the past few years there has been amazing progress toward more democratic governments in this hemisphere. Newly elected governments are now in place in El Salvador, Panama, Ecuador, Brazil, Uruguay and Argentina. Upcoming elections will increase democratic control in such countries as Guatemala. Other countries such as Bolivia and Peru, are suffering serious social, political and economic problems which threaten continued democratic control.

In view of the critical importance of this area to the national self interest of the United States, we recommend that the total of $1.3 billion be increased significantly. Additional ESF funding should be made available for several countries including Panama which was almost overlooked by the National Bipartisan Commission on Central America. The FY 86 AID request includes only $40 million in ESF funding for this strategically important country which has just moved back to a democratic government and desperately needs more U.S. help.

C) African Food Crisis

The U.S. cooperative community is extremely concerned about the current African food crisis. As founders and members of the board of CARE (the Cooperative for American Relief Everywhere), several of our cooperative organizations are deeply involved in relief measures, both short and longer term, to alleviate this human tragedy. In addition to CARE, other U.S. cooperative development organizations active in African countries include the Agricultural Cooperative Development International, the Cooperative League of the USA, the Cooperative Housing Foundation, the National Rural

Electric Cooperative Association, Volunteers in Overseas Cooperative Assistance, and the World Council of Credit Unions. These organizations are working on longer range problems which will help improve food production, distribution, marketing, as well as self-help shelter and community services. We applaud the efforts of AID Administrator, M. Peter McPherson, to dramatically increase the volume of U.S. economic and food aid under very difficult circumstances.

Unfortunately, too many African nations have tried to develop cooperatives within government structures, rather than promote independent democratic cooperatives in the private sector. We support AID's policy initiatives urging African countries to move away from parastatal (state-controlled) boards and cooperatives. However, we believe that AID can achieve changes in host country policies by direct funding of private sector demonstration projects.

We also support AID's increased participant training programs for Africa, and the U.S. cooperative community stands ready to dramatically increase its program of practical training within U.S. cooperatives.

D) Farmer-to-Farmer Program

U.S. cooperatives firmly support the initiative to fund provisions in PL 480 legislation for using highly qualified U.S. volunteer farmers to provide direct technical assistance to farmers in developing countries. For over 10 years, U.S. cooperatives have been providing volunteers for short-term technical assistance abroad through VOCA (Volunteers in Overseas Cooperative Assistance) which receives support from AID. We have many highly qualified farmers from U.S. cooperatives who are willing to donate their time, experience and skills to assist farmers overseas. However, our ability to expand such activities is limited by lack of the financial support which the farmer-to-farmer amendment would provide.

We believe that the innovative, low cost approach envisioned in the amendment can be efficiently implemented using farmer teams to provide direct hands-on training which is the type of practical help which farmers in developing countries often request to overcome various difficulties and to gain confidence in more modern agricultural practices.

E) Credit Union Development in Latin America

During the past 25 years a three million member cooperative thrift and credit system has been developed throughout Latin America with technical assistance from the Credit Union National Association (CUNA), the World Council of Credit Unions (WCCU) and with support from AID. These 200,000 credit unions, located in 18 countries with over one billion dollars in assets, are now experiencing tremendous economic stress as a result of high inflation, devaluation and political unrest. This proven private sector financial network with its democratic self-help approach for assisting low and moderate income people is currently endangered.

We urge the Committee to adopt sense of the Congress language to encourage AID and other international institutions in which the U.S. participates to provide assistance to strengthen the capacity of the Latin American credit union system to withstand the current financial crisis. Further, we urge AID to target the proposed increases in participant training for Latin America to credit union leaders so they can gain the experience and knowledge to help them overcome these current difficulties.

F) Rural Electrification in Central America

Last year, on the initiative of Senator Pressler, the Committee adopted report language which urged AID to support a comprehensive rural electrification program in Central America. The provision has bipartisan support and was included in the House-passed bill. Further, report language by the House Appropriations Committee reiterated the importance of fostering the expansion and delivery of electrification to rural populations in Central America. The National Rural Electric Cooperative Association (NRECA) is in the process of developing an initial survey for a comprehensive program and we urge inclusion of the amendment in this year's bill with report language encouraging AID to act expeditiously for its implementation.

G) Extension of AID's Housing Guaranty Program

In reviewing the Administration's FY 1986 AID budget, we were very disappointed to note that the AID's Housing Guaranty Program has been sharply reduced to only $45 million for 1986. That amount is to be used for Panama and Portugal where existing commitments have been made. The program is to be terminated after 1986. We have worked with this program over the years and have first-hand knowledge of the wide benefits housing guarantees have provided to very low-income people throughout the world by helping them to improve their shelter and community services. We believe that providing opportunities for shelter, home ownership and jobs for poor people is one of the most effective ways to fight communism.

It is our understanding that the decision to eliminate the program was not based upon a review of the program itself. The reason given in the Congressional presentation of AID is that the program has an adverse impact on U.S. credit market. We seriously question whether that is true. The program at its normal level is far too small in relation to the U.S. credit market to have a significant effect. Yet its impact in developing countries is tremendous.

We strongly recommend that the program be extended at the previous level of approximately $160 million through FY 1986 and FY 1987. During that time, we recommend that the program be carefully evaluated, perhaps with special hearings some of which could take place in the field where the program results can be seen and where modification can be considered. If the benefits of the program do not greatly outweigh the supposed adverse impact on the credit market, a decision to terminate the program could then be made in a more rational manner.

H) Renewable Energy Programs

The energy crisis in the developing world continues regardless of the recent downward trend in world oil prices and a changed U.S. perspective that the energy crunch has been temporarily solved. Developing countries are plagued with foreign exchange losses, due to the high cost of imported oil, which divert significant financial resources from development programs. In critical rural regions, there is a particular need for renewable energy programs to provide electricity and meet the power needs of the poor as well as to slow down environmental degradation through, for example, deforestation.

AID has been a leader in developing renewable energy technologies. We urge AID to balance its research efforts with direct field application of renewable energy projects using known and effective technology. We are concerned that AID's energy programs are not receiving sufficient attention, in particular its worldwide programs for the application of cost-effective technologies, such as small hydro-power systems. Often, rural energy is the missing ingredient in expanded agricultural production and job creation. Decentralized systems, organized through cooperatives, can result in immediate economic gains for low income rural people.

I) Local Currencies and the Private Sector

U.S. cooperative development organizations have assisted with a number of programs utilizing locally generated currencies from PL 480 and Economic Support Funds (ESF) for the creation of host country cooperative financial institutions and for other purposes.

We believe that the use of local currencies has been too frequently directed to government programs and that too little is made available through private sector organizations and cooperatives. We urge the Committee to include bill or report language in this year's legislation directing AID to use PVOs and cooperatives "to the maximum extent feasible" for all local currency programs worldwide.

Also, it is very difficult for PVOs and cooperatives to keep track of opportunities for the use of local currencies which, for the most part, are dealt with at the USAID mission level. Therefore, we urge the Committee to provide report language instructing AID to provide regular and timely information on the opportunities for PVOs and cooperatives to initiate local currencies programs including a means to cover local costs of their projects.

J) Food for Peace Amendments

We support increases in Title I Sales of PL 480 Surplus Agricultural Commodities to increase U.S. markets and to provide needed food on a concessional basis to food deficient countries. In addition, we support authorization language to permit countries with per capita GNP of $500 or less to repay Title I sales in their local currencies. Particularly in Africa, this would conserve valuable foreign currency which could be redirected to development. Such foreign currency repayments could also be used to finance agricultural production activities.

We also support increases in minimum tonnage for Title II Humanitarian Programs by PVOs in the World Food Program. To accommodate an increase in this for ongoing programs, we urge an increase in overall Title II levels.

We support monetization of Title II commodities, support feeding parents, for mother and child, health, food for work and school feeding programs. Such monetization should also be available for agricultural development projects and for logistic support in emergency feeding activities. We also encourage greater monetization of Section 416 dairy and other excess agricultural commodities for similar purposes. For several years, the Committee has included language in its bill to encourage AID to utilize PVOs and cooperatives in the implementation of Food for Development programs (Title III of PL 480). We urge the Committee to include this provision again in its bill which will tap the experience and expertise of U.S. cooperatives and PVOs in Title III programs.

K) Private Sector Revolving Fund

Again, this year, the U.S. cooperatives support the request for the Private Sector Revolving Fund which we believe can be a useful tool in increasing private enterprise development in the Third World.

L) Promotion of Democratic Cooperatives

Last year, the Senate Foreign Relations Committee approved a provision by Senators Percy and Boschwitz in its bill which recognized that in addition to their role in social and economic development, cooperatives provide an opportunity for low and moderate income people to participate directly in democratic decision making. In implementing this provision, we suggest the Committee include report language which would encourage USAID missions to review the opportunities for the increased use of cooperatives in their country development strategies. Such field information would assist U.S. cooperative development organizations in proposing programs and activities for expanded cooperative development.

VI. SUMMARY OF RECOMMENDATIONS

A) Total Funding for FY 86 economic assistance should be increased from the requested level of $4.966 billion to an amount at least equal to the FY 85 level of approximately $6.646 billion.

B) The Latin American region total of $1.3 billion should be increased significantly to support democratic development and stability in our hemisphere.

C) We support and applaud AID's recent efforts to alleviate the African food crisis and recommend policies to move African cooperatives out of the government structure and into the private sector.

D) We support the "Farmer to Farmer" program and urge its funding.

E) We urge AID to provide emergency assistance to credit unions in Latin America which are suffering from inflation, devaluation and political unrest.

F) We urge AID to move forward with a comprehensive rural electrification program in Central America.

G) The AID Housing Guaranty program should be extended at current levels (approximately $160 million per year) through FY 1986 and FY 1987 and not be terminated

H) AID's renewable energy program should balance research with direct field application of known technology such as small hydro power systems.

I) Local currency from PL 480 and ESF programs should be used more for private sector programs of PVOs and cooperatives and less for government projects.

J) We support increases in Food for Peace, in Title I sales and Title II Humanitarian Programs for increased U.S. markets and to help hungry people, as well as various modifications to enhance the use of PL 480 for development.

K) We support the request for the Private Sector Revolving Fund and its use by cooperatives.

L) We urge AID to make more use of cooperatives in promoting democratic decision making in keeping with the provision approved last year by the Senate Foreign Relations Committee, under Section 123, Promotion of Democratic Cooperatives.

STATEMENT BY

DR. D. WOODS THOMAS
ASSOCIATE DEAN AND DIRECTOR, INTERNATIONAL PROGRAMS
SCHOOL OF AGRICULTURE
PURDUE UNIVERSITY

TO THE

SENATE COMMITTEE ON FOREIGN RELATIONS

ON BEHALF OF

NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES

MARCH 22, 1985

FAMINE PREVENTION AND FREEDOM FROM HUNGER IN AFRICA

Suggestions for the Long Term

by

D. Woods Thomas[2]

Chairman Lugar and Members of the Senate Foreign Relations Committee:

It is a privilege to suggest an approach to the eventual amelioration of poverty and periodic famine in the African nations. It is very much in our national self-interest to devise a more effective long-term program of developmental assistance to these nations. Clearly, the existence of hunger and famine abroad is unacceptable within the basic value system of the peoples of the United States.

Abhorrent as they are, the current famines in numerous African nations have again focused attention on an issue of critical concern to the Senate Foreign Relations Committee as well as to the Government and people of the United States. Bilateral and multilateral efforts to assist the African nations in their agricultural development processes have been inadequate. They have not yet resulted in bonafide accelerated agricultural development. They have not yet ameliorated the periodic famines which have characterized an important fraction of African countries.

The existence of hunger and famine in Africa is the antithesis of

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[1] Statement for the record; Senate Foreign Relations Committee, Congress of the United States, Washington, D.C., March 21, 1985.

[2] Professor of Agricultural Economics, Director of International Education and Research, Associate Dean and Director of International Programs in Agriculture, Purdue University, West Lafayette, Indiana.

the deeply held humanitarian values of the American people. The unparalleled response of the government and private sectors of the United States in the provision of emergency relief to the starving and the hungry of Africa is concrete evidence in this regard. The American people, through tax support of public relief efforts and contributions to private relief efforts have made billions of dollars available for emergency relief. This is laudable in every respect. This, in the context of similar occurrences in the recent past and the probability of such in the foreseeable future, raises sharply the question of measures which could and should be taken to assist the African nations in making famine an unhappy historical event. It raises the corollary question of measures to assist them to achieve not only food self-sufficiency but also bonafide agricultural development, the reduction of poverty and acceleration of social progress.

It is incumbent upon all of us to objectively face several issues in this respect. One is the nature and magnitude of the fundamental problems underlying the recurrent famines in Africa. Another is the parameters of the long-term solution to famine and hunger. Still another deals with an appropriate role for the United States in contributing to the attainment of that solution and the nation's self-interest and humanitarian objectives in playing that role. A final issue is one of determining the resources which will be required and the manner in which they must be invested if the United States is to contribute that which it must toward the ultimate solution of the famine and hunger problems afflicting the people of the African nations.

Some observations, thoughts and suggestions relative to these matters follow.

The basic fact underlying the problems faced by most famine-, hunger- and poverty-stricken nations of Africa is that they are highly dependent on the agricultural sector. This sector, for the most part, is traditional in character. It is not undergirded by technologies capable of producing the levels of productivity of capital, land, labor and management required to feed a rapidly expanding population, let alone making essential contributions to general economic development, the reduction of poverty and to social progress. This fact, when coupled with environmental conditions inherently hostile to agricultural production, simply cannot be ignored in any rational quest for means of resolving the famine and hunger problems raging in Africa.

The lack of progress in increasing agricultural resource productivity in Africa is attributable to a multiplicity of factors. However, a fairly small number of such factors contribute most to this unhappy phenomenon.

> The African nations have not invested heavily enough nor long enough in the creation of indigenous national research institutions to produce output-increasing technologies adapted to local conditions, nor the information and knowledge to assure adoption of these technologies at the farm level.
>
> Few African nations have established agricultural extension systems capable, on the one hand, of identifying the principal constraints to increased resource productivity

and, on the other, transmitting technical and/or other solutions to these constraints to the decision-makers at the farm level.

Few African nations have been able to create educational institutions capable of providing the kind, quantity and quality of human capital requisite to increased resource productivity in the agricultural sector.

Most African nations have not developed an institutionalized cadre of agricultural and public policy analysts to assure the existence of public policies essential to accelerated agricultural development and associated increases in the production of food and fiber for domestic consumption and for export.

The African nations, for the most part, have not invested sufficiently in the formation of human capital embodied in agricultural scientists, educators, administrators, policy makers and technicians essential to the creation and/or strengthening of national institutions essential to the modernization of indigenous agriculture. In the early stages of economic development, this usually requires substantial investment in the education of indigenous staff in universities abroad. National governments, as well as external development assistance donors, in their search for short-run solutions to long-run agricultural development problems have tended to ignore the high payoffs associated with this order of investment in indigenous human capital formation.

Similarly, many external donor agencies have not focused sharply enough or long enough on the fundamental institutional, technical and policy constraints to increased productivity of resources employed in agriculture.

The above suggests a great deal about a viable approach to the solution of the famine, hunger and poverty problems of Africa. It provides guidance to a set of necessary if not sufficient conditions requisite to the long-term solution of these problems.

It is clear that the African nations, as a matter of irrevocable public policy, must give top priority to the acceleration of agricultural development. They must recognize this as the only realistic course of action. They must recognize that it will take decades to accomplish. They must have the political will to pursue this course of action with tenacity.

To provide the essentials for the systematic modernization of agriculture, these nations must emphasize the strengthening of existing or the creation of new institutions which are essential to increased productivity in agriculture.

This means the development of national agricultural research systems having the capacity to provide resource productivity-increasing technologies to food and fiber producers, processors and distributors. This capacity must be great enough to produce new adoptable technologies and/or to adapt existing technologies from external sources. It must also be able to provide maintenance research for an economic sector based primarily on biological phenomena.

These nations must develop sufficient extension capacity to identify constraints to increased resource productivity in agriculture, to transmit this information to agricultural research systems at home and abroad, and to provide decision-makers in agriculture with relevant technology, knowledge and information as this becomes available.

One by one, these nations must develop the institutional capacity to provide public policy decision-makers with information relative to the probable outcomes of alternative public policies vis-a-vis economic and other determinants of the incentives to agricultural modernization.

These nations must invest in the creation of sufficient educational capacity to develop the broad spectrum of agriculturalists upon which a highly productive agriculture rests. This spectrum ranges from individuals who make resource allocation decisions at the farm level through the public and private organizations and institutions to the policy decision-makers at national levels. Attempting to create the institutional capacities suggested immediately above without specific attention to this matter will almost certainly result in failure.

There is significant need for the creation of a critical mass of agricultural scientists, educators and administrators to staff the basic agricultural institutions in Africa. This will require sharply expanded investment in the education of Africans in universities abroad. The establishment of effective collaborative working relationships with agricultural research and education institutions in the more industrialized nations and other relevant national and international institutions will be important.

It is safe to assume that the United States is firmly committed to providing assistance to the African nations for the purpose of the eradication of famine, hunger and poverty. The above analysis provides a set of guidelines which should help the United States to achieve the fullest possible attainment of this objective. Some of these guidelines are indicated below.

First, it would be desirable for the Agency for International Development (AID) to reallocate certain of its agriculture, rural development and nutrition resources (Section 103 and ESF) to the creation and/or strengthening of the basic institutions serving African agriculture. During the period 1980-1985, the Agency utilized some fifty percent of its African Section 103 funds for institution building purposes. When ESF funds utilized for agricultural development in Africa are considered, less than half of the aggregate was used for these purposes.[3]

The long-term returns to the total U.S. investment in African agriculture would be greater with such reallocation than if the patterns of the recent past are followed. Further, it would seem wise for the Agency to concentrate much of its institution building effort and assume a leadership role in providing developmental assistance to the creation or strengthening of the four basic agricultural institutions indicated earlier in this statement.

Second, the Agency should increase its allocation of available funds to existing or new Collaborative Research Support Prorgrams

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[3] Recommendations of the Board for Food and Agricultural Development (BIFAD) on AID Program and Budget for FY1985 in Agriculture, Rural Development and Nutrition, Agency for Intenational Development, Washington, D.C., February 1984.

(CRSPs) having specific relevance to the technical, economic and social constraints to increased resource productivity in Africa. In the short- to mid-term, some important part of Africa's needed research capacity will have to be provided by U.S. agricultural and other research institutions. The Collaborative Research Support Program is a cost-efficient approach to providing external assistance in this arena. At the same time, it can contribute significantly to the strengthening of African agricultural research institutions and to expansion of the stock of African agricultural scientists.

Third, the Agency would be well-advised to sharply expand resources allocated to the training of an initial critical mass of African agricultural scientists, educators, policy makers and administrators. In the longer-term, African educational capacity to train such individuals must be expanded. It is clear that initial investments in this area of human capital formation can best be made through education of Africans abroad.

Finally, the African nations would be well-served if the Agency were to take rather heroic measures to further mobilize the enormous research and educational expertise of the U.S. 1862 and 1890 land grant colleges, other agriculturally-oriented U.S. universities, the USDA and other appropriate federal agencies to work in a long-term framework on the fundamentals of modernizing the traditional agricultural sectors of African nations. Ten years ago, the Congress enacted the Title XII Amendment to the Foreign Assistance Act for this specific purpose. Considerable progress has been made; however, enormous potential still exists. The opportunity costs of not exploiting this potential, measured in terms of the pace of African agricultural development, could be extremely high.

The Agency might well concentrate the bulk of its institution building, research and human capital formation investments on some sub-set of African nations having the greatest potential, desire and will to embark on the type of agricultural development process and strategy suggested in this statement.

The famine conditions existing in many of the African nations provide critical guidance to the U.S. executive and legislative branches. The United States must exercise the political will to make irrevocable, long-term commitments to participating in the process of bonafide development of African agriculture. It must take the lead among the many actors in the economic development field on the African scene.

The United States, budget constraints notwithstanding, must find means of increasing the level of development assistance resources above those proposed in current budgetary presentations. The problems of famine, hunger and poverty in Africa are of such magnitude and significance that U.S. development assistance must be made available in some quantumly greater measure. Limiting the use of such additional resources to the priority investment opportunities suggested in this statement would make a great deal of sense.

We must recognize that the modernization of African agriculture will require decades to achieve, even under the best of hypotheses vis-a-vis both indigenous and external development effort. There are no short cuts.

The courses of action proposed for African nations and external donors alike hold considerable promise for the eventual elimination of the spectre of famine and hunger clouding the present and the future of the African peoples. Suggested changes in the U.S. African development assistance program would enable this nation to make unique contributions to the achievement of accelerated agricultural and economic development in Africa. This, in turn, will contribute significantly to the fullest possible attainment of our nation's humanitarian goals. It will also contribute importantly to the attainment of the self-interest economic, security and political objectives of the United States.

[Whereupon, at 12:55 p.m., the committee adjourned, to reconvene at 10 a.m., Thursday, March 21, 1985.]

SECURITY AND DEVELOPMENT ASSISTANCE (NEAR EASTERN AND SOUTH ASIAN AFFAIRS)

THURSDAY, MARCH 21, 1985

United States Senate,
Subcommittee on Near Eastern
and South Asian Affairs of the
Committee on Foreign Relations,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present. Senators Boschwitz, Pell, Sarbanes, Cranston, and Dodd.

Senator **Boschwitz**. The hearing this morning will deal with foreign assistance proposals to the Near East and South Asian regions, which constitute a fairly large proportion of the foreign aid that is given by the United States. This year we are not pursuing our normal practice of having a large number of outside organizations come and testify. They are welcome to submit written testimony. If they will keep it short and pointed; I will assure them that I will read it. We will instead hear the administration present its intentions with respect to our area.

We have with us this morning: The Honorable Richard W. Murphy, Assistant Secretary of State; Bradshaw Langmaid, Deputy Assistant Administrator of AID for the Near East; Charles Greenleaf, Assistant Administrator of AID for Asia; and also General Gast, who is Director of the Defense Security Assistance Agency of the Department of Defense.

All of you gentlemen have been here often before. We welcome you back.

Senator Pell, do you have any opening remarks?

Senator **Pell**. Thank you, Mr. Chairman. I have no opening remarks. I just wish all our witnesses well.

I guess the two greatest tinderboxes there are right now are Pakistan and India and Palestine and Israel. I wish them all well.

Senator **Boschwitz**. Secretary Murphy, would you begin.

STATEMENT OF HON. RICHARD W. MURPHY, ASSISTANT SECRETARY OF STATE FOR NEAR EAST AND SOUTH ASIAN AFFAIRS

Ambassador **Murphy**. Mr. Chairman, Senator Pell.

I would like just to make a few brief remarks, drawn from the statement submitted for the record.

We are pleased to be with you today to testify in support of our fiscal year 1986 foreign assistance request for the Near East and

South Asia. Our foreign assistance programs in the region are vital to the achievement of our foreign policy goals, and I would sum these up as to promote stability in this strategic region, to ensure the security and well-being of Israel, and to assist other friendly states with their security needs, to foster the peaceful resolution of regional conflicts, to maintain free world access to the crucial oil resources of the Persian Gulf, to search for peace in an independent Afghanistan with the withdrawal of Soviet military forces.

If we are to advance major U.S. international interests, we must provide the resources commensurate with the need to strengthen economies and defense capabilities of key countries in this vital area of the world. One of our foremost objectives continues to be furthering the Middle East peace process, to bring a just and lasting solution to the Arab-Israeli conflict through negotiations, as proposed by President Reagan in his initiative of September 1, 1982.

Israel and Egypt remain our principal partners in the quest for peace. They would be the largest recipients of our proposed assistance, and we have carefully examined their needs. While we are deferring a request for a supplemental for Israel, the administration supports an ESF level of $1.2 billion for fiscal year 1986.

Smaller programs planned for Jordan and Lebanon can also promote regional security and progress toward peace. Another priority area is Southwest Asia, focusing on the Persian Gulf. This important source of oil is threatened by the expanding intensity of the Iran-Iraq War. Our assistance program overall is directed at bolstering the security of countries in the region and en route to it: Oman, Yemen, Morocco, Tunisia, and Algeria.

The security and stability of Pakistan is a key element in the security of this region. Our assistance request for Pakistan also reflects the important role that it plays in opposing Soviet aggression in Afghanistan.

Finally, in South Asia we wish to encourage through our economic assistance to India, Sri Lanka, Nepal, and Bangladesh the growth of stable and independent states living in peace with one another.

Thank you, Mr. Chairman.

[Ambassador Murphy's prepared statement follows:]

STATEMENT OF
RICHARD W. MURPHY
ASSISTANT SECRETARY
FOR NEAR EASTERN AND SOUTH ASIAN AFFAIRS
DEPARTMENT OF STATE
BEFORE THE SENATE FOREIGN RELATIONS SUBCOMITTEE ON THE NEAR EAST AND SOUTH ASIA
THURSDAY, MARCH 21, 1985

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE:

I WELCOME THE OPPORTUNITY TO TESTIFY TODAY IN SUPPORT OF THE ADMINISTRATION'S PROPOSALS FOR FISCAL YEAR 1986 ECONOMIC AND SECURITY ASSISTANCE FOR THE NEAR EAST AND SOUTH ASIA.

THE ADMINISTRATION'S PROPOSAL REFLECTS OUR FOREIGN POLICY AND NATIONAL SECURITY OBJECTIVES IN THIS VITAL REGION. IN EACH COUNTRY, OUR ASSISTANCE PROGRAMS ARE INTENDED TO NURTURE RELATIONSHIPS OF MUTUAL INTEREST AND TRUST AND TO ASSIST THESE GOVERNMENTS IN STRENGTHENING THEIR SECURITY AND FURTHERING THEIR ECONOMIC PROGRESS.

OUR FOREIGN ASSISTANCE PROGRAMS IN THE REGION ARE VITAL TO THE ACHIEVEMENT OF OUR FOREIGN POLICY GOALS:

-- TO PROMOTE STABILITY IN THIS STRATEGICALLY IMPORTANT REGION

-- TO ENSURE THE SECURITY AND WELL-BEING OF ISRAEL, AND TO

ASSIST OTHER FRIENDLY STATES IN THE REGION WITH THEIR SECURITY NEEDS

-- TO FOSTER THE PEACEFUL RESOLUTION OF REGIONAL CONFLICTS

-- TO MAINTAIN FREE WORLD ACCESS TO THE VITAL OIL RESOURCES OF THE PERSIAN GULF.

-- TO SEARCH FOR PEACE IN AFGHANISTAN INCLUDING THE WITHDRAWAL OF SOVIET MILITARY FORCES AND THE RESTORATION OF AFGHAN INDEPENDENCE.

IN OUR EFFORTS TO ADVANCE REGIONAL STABILITY AND TO PROMOTE THE RESOLUTION OF CONFLICTS THROUGHOUT THE REGION, WE RECOGNIZE THAT THE SPIRIT OF ACCOMMODATION CAN GROW MORE READILY IF FRIENDLY STATES FEEL CONFIDENT OF THEIR ABILITY TO PROVIDE FOR THEIR OWN SECURITY AND FOR THE ECONOMIC AND SOCIAL NEEDS OF THEIR PEOPLE.

THE LEVELS AND TERMS OF OUR PROPOSED ASSISTANCE HAVE BEEN CAREFULLY DEVELOPED WITHIN THE CONSTRAINTS OF OUR BUDGET STRINGENCIES AND THE PRESIDENT'S ECONOMIC PROGRAM, AND ARE THE MINIMUM AMOUNTS NEEDED TO MEET ESSENTIAL REQUIREMENTS OF THE

COUNTRIES IN THIS REGION.

OUR FISCAL YEAR 1986 FOREIGN ASSISTANCE REQUEST FOR THE NEAR EAST AND SOUTH ASIA WILL FUND SIX MAJOR PROGRAMS:

$3.646.3 MILLION IN FOREIGN MILITARY SALES CREDIT (FMS) INCLUDING $3.100 MILLION IN FORGIVEN CREDITS FOR ISRAEL AND EGYPT

$67 MILLION IN GRANT MILITARY ASSISTANCE PROGRAMS (MAP)

$12.32 MILLION IN INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET)

$1.182 MILLION IN ECONOMIC SUPPORT FUNDS (ESF) WHICH DOES NOT INCLUDE ESF FOR ISRAEL

$287.2 MILLION IN DEVELOPMENT ASSISTANCE (DA) AND

$538.7 MILLION IN PL 480 FOOD ASSISTANCE.

MIDDLE EAST PEACE: AS PART OF OUR GENERAL EFFORT TO PROMOTE REGIONAL STABILITY, THE RESOLUTION OF THE ARAB-ISRAELI CONFLICT CONTINUES TO BE ONE OF OUR FOREMOST OBJECTIVES. THERE ARE NO QUICK AND EASY SOLUTIONS FOR PEACE IN THE REGION.

HOWEVER, WE WILL PERSEVERE WITH OUR EFFORTS, WHICH ARE BASED ON THE PRESIDENT'S MIDDLE EAST PEACE INITIATIVE OF SEPTEMBER 1, 1982. OUR ASSISTANCE PLAYS AN IMPORTANT ROLE IN FURTHERING THE PEACE PROCESS.

SIX YEARS AGO A PEACE TREATY ENDED THIRTY YEARS OF WAR BETWEEN EGYPT AND ISRAEL. ISRAEL AND EGYPT REMAIN OUR PRINCIPAL PARTNERS IN THE QUEST FOR PEACE, AND THESE TWO NATIONS ARE THE LARGEST RECIPIENTS OF OUR PROPOSED FOREIGN ASSISTANCE FOR FISCAL YEAR 1986. THIS ASSISTANCE IS AIMED AT ENSURING THEIR SECURITY AND STRENGTHENING THEIR ECONOMIES, BOTH ESSENTIAL TO THEIR CONTINUING ON THE PATH TO A BROADER PEACE SETTLEMENT.

SMALLER PROGRAMS PLANNED FOR JORDAN AND LEBANON CAN ALSO PROMOTE REGIONAL STABILITY AND PROGRESS TOWARD PEACE. JORDAN REQUIRES OUR CONTINUED SUPPORT TO MAINTAIN ITS SECURITY, ITS ROLE IN FACILITATING THE STABILITY OF THE AREA, AND TO BUILD THE NECESSARY CONFIDENCE TO JOIN THE PEACE PROCESS. LEBANON NEEDS OUR SUPPORT TO HELP DEAL WITH THE CONTINUING PROBLEMS BESETTING IT AND TO PROMOTE STABILITY IN THE AREAS BETWEEN SYRIA AND ISRAEL. OUR PROGRAM ALSO SEEKS TO IMPROVE THE QUALITY OF PALESTINIAN LIFE IN THE WEST BANK AND GAZA, AND TO ENCOURAGE ECONOMIC AND SOCIAL COOPERATION IN THE REGION. INDIVIDUAL PROGRAM REVIEWS FOLLOW:

Israel: The United States has a historic commitment to Israel's security and viability extending over the past three decades. Our assistance provides a tangible demonstration of the strength and durability of that commitment, and seeks to give Israel the confidence to take the risks necessary to pursue the peace process.

To assist Israel in maintaining its qualitative edge in military capability over potential aggressors, a $1.8 billion in forgiven FMS credits is requested, an increase of $400 million over Fiscal Year 1985. Israel's military needs have been analyzed by both governments during sessions of the Joint Security Assistance Planning Group. We each agree that the terms and level of the Fiscal Year 1986 FMS request for Israel will achieve our mutual goals.

Israel has requested $2.64 billion in ESF assistance in the form of an FY 1985 supplemental appropriation and $1.85 billion in ESF for FY 1986, a net addition in ESF of $1.44 billion over last year's $1.2 billion level. The U.S. has indicated its willingness to provide additional assistance in support of a comprehensive Israeli economic program that deals effectively with the fundamental imbalances in the Israel economy. Without such a reform program, additional U.S. assistance would not resolve Israel's economic problems and would provide only

TEMPORARY RELIEF. MOREOVER, WITHOUT ECONOMIC ADJUSTMENT ISRAEL WILL BECOME EVEN MORE DEPENDENT ON U.S. ASSISTANCE IN THE FUTURE.

THE ISRAELI GOVERNMENT HAS TAKEN A NUMBER OF DIFFICULT STEPS TOWARD ECONOMIC STABILITY AND RECOVERY. WE ARE IMPRESSED WITH THE LEADERSHIP AND COMMITMENT OF PRIME MINISTER PERES IN THIS EFFORT TO DEVELOP A COMPREHENSIVE PROGRAM. BUT FURTHER EFFORTS ARE NECESSARY IF THE PROGRAM OF THE GOVERNMENT OF ISRAEL IS TO ACHIEVE ITS GOAL OF PUTTING ISRAEL BACK ON THE PATH OF SELF-SUSTAINING ECONOMIC GROWTH AND IF ADDITIONAL U.S. ASSISTANCE IS TO HAVE A DURABLE EFFECT. DURING THE RECENT VISIT OF ISRAELI MINISTER OF FINANCE MODAI, WE HELD VERY USEFUL TALKS; WE HOPE THIS WILL LEAD TO AGREEMENT ON A APPROACH IN WHICH ADDITIONAL U.S. ASSISTANCE CAN BE ASSOCIATED WITH AN EFFECTIVE ISRAELI PROGRAM. ACCORDINGLY, THE ADMINISTRATION INTENDS TO DEFER A REQUEST FOR A SUPPLEMENTAL FOR EXTRAORDINARY ASSISTANCE FOR ISRAEL. IN THE MEANTIME, THE ADMINISTRATION NOW SUPPORTS AN ESF AUTHORIZATION FOR ISRAEL FOR FY 1986 IN THE AMOUNT OF $1.2 BILLION.

EGYPT: THE CAMP DAVID ACCORDS AND THE EGYPTIAN-ISRAELI PEACE TREATY REMAIN THE CORNERSTONE OF OUR MIDDLE EAST PEACE POLICY. EGYPT HAS DEMONSTRATED ITS FIRM COMMITMENT TO THOSE

ACCOMPLISHMENTS BY REPEATEDLY REFUSING TO DISAVOW THEM AS A PRICE FOR RESUMING ITS HISTORIC LEADERSHIP ROLE IN THE ARAB WORLD. THE MUBARAK GOVERNMENT PUBLICLY AND ACTIVELY SUPPORTS THE CAMP DAVID ACCORDS AND THE PRESIDENT'S SEPTEMBER 1, 1982 PEACE INITIATIVE. IN THIS CONTEXT, PRESIDENT MUBARAK HAS RECENTLY EMPHASIZED THE IMPORTANCE OF ACHIEVING PEACE THROUGH DIRECT NEGOTIATIONS BELIVEN ISRAEL AND ITS ARAB NEIGHBORS. EGYPT AND ISRAEL HAVE INTENSIFIED CONTACTS SINCE THE BEGINNING OF 1985 TO RESOLVE OUTSTANDING DIFFERENCES AND IMPROVE THE ATMOSPHERE OF RELATIONS BETWEEN THEM.

EGYPT REMAINS AN IMPORTANT FORCE FOR PEACE AND STABILITY IN THE REGION NOT ONLY IN THE MIDDLE EAST BUT ALSO IN AFRICA, WHERE IT PLAYS A VITAL ROLE IN HELPING AFRICAN STATES DETER LIBYAN ADVENTURISM. EGYPT'S ABILITY TO CONTINUE THIS DETERRENT ROLE DEPENDS HEAVILY ON OUR ASSISTANCE. COOPERATING DIRECTLY WITH THE UNITED STATES IN MILITARY EXERCISES HAVE SERVED TO ENHANCE BOTH COUNTRIES' ABILITY TO PRESERVE STABILITY IN THE REGION. THE RECENT TREND TOWARD IMPROVED RELATIONS BETWEEN EGYPT AND MODERATE ARAB STATES, AND IN PARTICULAR THE RESTORATION OF RELATIONS BETWEEN EGYPT AND JORDAN, IS EVIDENCE OF THE GROWING STRENGTH OF THOSE FORCES WHICH SEEK A MORE STABLE AND SECURE MIDDLE EAST AND PEACEFUL, NEGOTIATED SOLUTIONS TO ITS PROBLEMS.

The request for $1.3 billion in forgiven FMS credits for Fiscal Year 1986 reflects our commitment to a long-term military supply relationship with Egypt to help it modernize its forces and replace obsolescent Soviet-supplied equipment. Our military assistance relationship with Egypt is a key part of our efforts to maintain the regional balance of forces which has been in danger of shifting in favor of Soviet-supplied radicals like Libya and Syria. FMS for Fiscal Year 1986 will be devoted mainly to progress payments on F-16 and E-2C aircraft, air defense system integration and air defense radars as well as to follow-on support for U.S. equipment supplied over the past few years. Less than $20 million will be spent on new equipment (counter artillery radar) this year.

A $2 million IMET program is proposed for FY 1986 which will finance training for Egyptian personnel in the United States. The objectives of this program are to assist Egypt in developing expertise needed to manage effectively its defense establishment and to acquaint Egyptian officers with the U.S military, U.S. society and values.

Our economic assistance helps maintain the continued economic growth which is essential to Egypt's stability. Our program is designed to support economic policies which address the existing constraints on development. Over the past year, the Egyptian Government has moved deliberately on economic

REFORM, RAISING PRICES OF FOOD AND ELECTRICITY AND LIBERALIZING FOREIGN EXCHANGE REGULATIONS. OUR PROPOSED ECONOMIC AID PROGRAM INCLUDES $222 MILLION IN PL480 FOOD ASSISTANCE AND A GRANT ESF PROGRAM OF $815 MILLION. THE ESF PROGRAM CONSISTS OF A $200 MILLION COMMODITY IMPORT PROGRAM, WHICH WILL ENABLE EGYPT TO IMPORT U.S. MANUFACTURED GOODS AND COMMODITIES, $515 MILLION IN PROJECT AND SECTOR ASSISTANCE AND $100 MILLION AS A CASH TRANSFER. THE CASH TRANSFER WILL HELP EGYPT ADJUST TO BALANCE OF PAYMENTS PROBLEMS CAUSED IN PART BY DECLINING OIL PRICES.

PL 480 FOOD ASSISTANCE REMAINS AN IMPORTANT PART OF OUR BALANCE OF PAYMENTS SUPPORT AND IS A TANGIBLE DEMONSTRATION OF THE BENEFITS OF PEACE. A MODEST REDUCTION IN BOTH PL 480 TITLE I AND TITLE II PROGRAMS FOR EGYPT FROM $237 MILLION IN FY 1985 TO $222 MILLION REQUESTED FOR FY 1986 IS BEING PROPOSED TO HELP MEET THE GROWING DEMAND FOR FOOD ASSISTANCE IN DROUGHT STRICKEN REGIONS OF AFRICA. THE EGYPTIAN GOVERNMENT HAS MADE GOOD PROGRESS IN IMPLEMENTING MEASURES SUCH AS INCREASING PROCUREMENT PRICES PAID TO FARMERS, WHICH SHOULD HELP STIMULATE PRODUCTION IN THE AGRICULTURAL SECTOR.

LEBANON: WE HAVE WELCOMED ISRAEL'S DECISION TO WITHDRAW ITS FORCES FROM LEBANON, WITH THE FIRST STAGE COMPLETED SUCCESSFULLY ON FEBRUARY 18. THIS IS CONSISTENT WITH OUR CONTINUED SUPPORT FOR EFFORTS TO BRING ABOUT THE WITHDRAWAL OF

ALL FOREIGN FORCES FROM LEBANON. WE REMAIN COMMITTED TO THE ACHIEVEMENT OF LONG-TERM STABILITY AND BELIEVE THAT U.S. ECONOMIC AND MILITARY SUPPORT, PROPERLY CHANNELED, CAN ASSIST IN THE ATTAINMENT OF THIS GOAL.

OUR MILITARY ASSISTANCE CONSISTS OF FMS CREDITS AND IMET. THE FISCAL YEAR 1986 REQUEST IS FOR $10 MILLION IN FMS CREDITS. THIS IS A MINIMUM LEVEL TO SUSTAIN U.S. ORIGIN EQUIPMENT PRESENTLY IN THE LEBANESE INVENTORY. THE LEBANESE ARMED FORCES, WHILE WEAKENED BY COMMUNAL DISSENTION IN 1983 AND 1984, MAINTAINED THEIR ESSENTIAL INTEGRITY AS AN INSTITUTION OF THE CENTRAL GOVERNMENT. IT IS IMPORTANT THAT THE MILITARY ARM OF THE GOL BE SUFFICIENTLY STRONG TO DISCOURAGE THE USE OF LEBANON AS A BASE FOR TERRORIST OPERATIONS AND TO PERMIT THE CENTRAL GOVERNMENT TO RE-ESTABLISH CONTROL OVER ADDITIONAL PORTIONS OF THE NATIONAL TERRITORY AS FOREIGN FORCES WITHDRAW. $800 THOUSAND IN IMET MONIES IS REQUIRED TO PROVIDE TRAINING TO BOLSTER THE LEBANESE ARMED FORCES.

THE ESF REQUEST OF $10 MILLION FOR FISCAL YEAR 1986 IS ALSO A MINIMUM REQUEST WHICH TAKES INTO CONSIDERATION THE EXISTENCE OF ABOUT $70 MILLION WHICH REMAINS UNOBLIGATED FROM THE FY 1983 SUPPLEMENTAL APPROPRIATION FOR LEBANON. DURING THE CURRENT FISCAL YEAR, ACTIVITY WILL CONTINUE IN TELECOMMUNICATIONS REHABILITATION AND IN RELIEF ASSISTANCE WORKING THROUGH PRIVATE

VOLUNTARY ORGANIZATIONS. IN ADDITION, WE PLAN TO IMPLEMENT PROJECTS IN HEALTH, VOCATIONAL TRAINING AND IN THE REPAIR OF WATER SYSTEMS AS SOON AS SECURITY CONDITIONS PERMIT RESUMPTION OF ECONOMIC RECONSTRUCTION ACTIVITIES.

JORDAN: A STABLE AND SECURE JORDAN IS ESSENTIAL TO ADVANCE THE PRESIDENT'S MIDDLE EAST PEACE INITIATIVE. JORDAN IS SURROUNDED BY LARGER AND MORE POWERFUL STATES. IT IS VASTLY WEAKER MILITARILY THAN ISRAEL AND ITS DEFENSIVE CAPABILITY VIS A VIS SYRIA HAS DECLINED DRAMATICALLY IN RELATIVE TERMS OVER THE PAST DECADE. DESPITE THIS DIFFICULT POSITION, JORDAN HAS RECENTLY TAKEN SOME BOLD STEPS WHICH DEMONSTRATE ITS COMMITMENT TO MODERATION AND PROGRESS TOWARD PEACE. LAST FALL, IT REESTABLISHED DIPLOMATIC RELATIONS WITH EGYPT, THEREBY REDUCING EGYPT'S ISOLATION, UNDERSCORING ONCE AGAIN JORDAN'S MODERATE ROLE, AND REINFORCING THE PRINCIPLE THAT NO STATE SHOULD BE OSTRACIZED OR PENALIZED FOR MAKING PEACE. JORDAN ALSO HOSTED THE PALESTINE NATIONAL COUNCIL MEETING IN AMMAN, WHERE KING HUSSEIN OPENLY CHALLENGED THE PLO TO ACCEPT U.N. SECURITY COUNCIL RESOLUTION 242 AND TO GIVE UP THE CALL FOR AN INDEPENDENT PALESTINE STATE.

RADICAL ELEMENTS OF THE PLO AND THE SYRIAN GOVERNMENT, AS WELL AS THE SOVIET UNION, OPPOSED THIS MEETING AND DISAPPROVED OF THE OUTCOME. THE DANGERS OF SUPPORTING THE PNC MEETING WERE demonstrated by the tragic assassination in Amman of a former West Bank mayor, Fahd Qawasmeh, who was a moderate spokesman favoring a Jordanian-Palestinian agreement on an approach to peace with Israel, as well as violence directly against Jordanian government installations and officials. Jordan's security situation is threatened by the massive Soviet arms transfers to Syria. Yet, this has not deterred the Jordanian government, which continues to seek a formula for bringing Palestinian representatives into the peace process as part of a Jordanian delegation.

The Jordanians play a responsible role in the region in other ways as well. Jordan's preparedness to respond to requests for assistance and support to Arab states in the Gulf continues to be a key element of King Hussein's policy, as does Jordanian efforts to maintain a secure border between Jordan and Israel. Jordan's influence as a force for security, stability and moderation in the Middle East has been and continues to be a positive one, deserving of U.S support.

The proposed Fiscal Year 1986 assistance program for Jordan consists of $95 million in FMS credits, $20 million in ESF and $2 million in IMET. The FY 1986 request will not be used for the purchase of new weapons systems, but rather for spare parts, ammunition, follow-on support as well as further support for the I-HAWK system. In view of Jordan's economic problems,

$65 MILLION OF THE PROPOSED FMS CREDITS WILL BE PROVIDED AT CONCESSIONAL RATES. THE TRAINING FUNDS UNDER IMET WILL ENHANCE THE PROFESSIONAL CAPABILITY OF JORDAN'S ARMED FORCES, PROVIDES JORDANIAN OFFICERS WITH A U.S ORIENTATION, AND INFLUENCES THE TRAINING THE JORDANIAN ARMED FORCES PROVIDE TO OTHER MODERATE ARAB COUNTRIES.

JORDAN'S ECONOMY HAS SLOWED CONSIDERABLY SINCE 1981. JORDAN IS POOR IN NATURAL RESOURCES WITH LIMITED ARABLE LAND AND LIMITED WATER. THE IRAN-IRAQ WAR HAS HALTED THE GROWTH OF IRAQ AS AN IMPORTANT MARKET FOR JORDANIAN PRODUCTS AND SKILLS. AT THE SAME TIME, FALLING OIL INCOME IN SAUDI ARABIA AND THE GULF STATES HAS HAD A THREE FOLD INFLUENCE ON JORDAN: SIGNIFICANT REDUCTIONS IN ARAB AID, INCREASING COMPETITION IN TRADITIONAL JORDANIAN MARKETS COUPLED WITH DECREASING DEMAND, AND LEVELING OFF OF REMITTANCES FROM JORDANIANS WORKING OVERSEAS. TO ITS CREDIT, THE JORDANIAN GOVERNMENT HAS PURSUED RESPONSIBLE ECONOMIC POLICIES IN ADJUSTING TO THESE ADVERSE ECONOMIC DEVELOPMENTS, BUT IT IS NOW STRAPPED WITH A VERY TIGHT BUDGET.

THE FY 1986 ESF PROGRAM WILL CONTINUE EFFORTS IN HIGHLAND AGRICULTURAL DEVELOPMENT TO EXPAND AND MODERNIZE PRODUCTION IN EXTENSIVE HIGHLAND AREAS. WORK IN GROUNDWATER ASSESSMENT WILL BUILD ON AN ONGOING PROJECT COVERING NORTHERN JORDAN. ANOTHER CONTINUING PROJECT WILL PROVIDE SHORT AND LONG-TERM TRAINING IN

ECONOMIC AND TECHNICAL SUBJECTS.

MIDDLE EAST REGIONAL PROGRAM: THE MIDDLE EAST REGIONAL PROGRAM REQUEST FOR FISCAL YEAR 1986 CONSISTS OF $22 MILLION IN ESF, $4.17 MILLION IN DEVELOPMENT ASSISTANCE AND $2 MILLION IN PL 480 TITLE II. THE ESF PROPOSAL FURTHERS U.S. OBJECTIVES OF PEACE, ECONOMIC AND SOCIAL DEVELOPMENT FOR THE PEOPLES OF THIS REGION. THIS GRANT WILL FINANCE THREE MAJOR ACTIVITIES:

$10 MILLION WILL BE USED FOR DEVELOPMENT PROJECTS IN THE WEST BANK AND GAZA. THROUGH THESE PROJECTS, WHICH ARE IMPLEMENTED BY U.S. AND LOCAL PRIVATE VOLUNTARY ORGANIZATIONS, THE U.S. HAS BEEN AND CONTINUES TO BE ACTIVELY INVOLVED IN EFFORTS TO IMPROVE THE QUALITY OF PALESTINIAN LIFE IN THESE TERRORITIES. THIS INVOLVEMENT REFLECTS THE LEGITIMATE CONCERN WHICH WE HAVE FOR THE WELFARE OF THE PALESTINIANS LIVING IN THE WEST BANK AND GAZA. WE INTEND TO IMPLEMENT THIS PROGRAM IN A MANNER THAT WILL DIRECTLY CONTRIBUTE TO ACHIEVING THE ECONOMIC AND SOCIAL OBJECTIVES OF THE PEOPLE IT IS DESIGNED TO SERVE. REQUIREMENTS FOR THE PROGRAM HAVE BECOME GREATER BECAUSE OF THE ISRAELI ECONOMIC CRISIS WHICH HAS HAD ITS IMPACT ON THE ECONOMY OF THE OCCUPIED TERRITORIES. THE PVO PROJECTS ARE CONCENTRATED IN THE FOLLOWING AREAS: HEALTH AND SANITATION, AGRICULTURAL DEVELOPMENT, WATER STORAGE AND SUPPLY, COMMUNITY DEVELOPMENT, AND VOCATIONAL AND HIGHER EDUCATION. IN ADDITION, DURING THE

PAST YEAR WE HAVE INAUGURATED PROGRAMS DESIGNED TO PROVIDE ASSISTANCE DIRECTLY TO DESERVING PALESTINIAN INSTITUTIONS IN THE WEST BANK AND GAZA.

WE ARE ENCOURAGED BY THE STATED COMMITMENT OF ISRAELI PRIME MINISTER PERES TO SUPPORT AND ENCOURAGE AN IMPROVED QUALITY OF PALESTINIAN LIFE IN THE TERRITORIES, AND THE STEPS TAKEN TO DATE IN THAT REGARD, PARTICULARLY IN THE HEALTH FIELD. WE WILL CONTINUE TO ENCOURAGE THIS APPROACH DIRECTLY AND THROUGH THIS ASSISTANCE PROGRAM.

WE ARE FULLY AWARE THAT THESE PROGRAMS ARE NO SUBSTITUTE FOR A NEGOTIATED SETTLEMENT THAT CAN GIVE EXPRESSION TO THE LEGITIMATE RIGHTS OF THE PALESTINIANS IN THESE TERRITORIES -- NOR ARE THEY INTENDED TO DO SO. WE ARE PREPARED TO ADDRESS THE POLITICAL DIMENSION OF THE PALESTINIAN PROBLEM WHENEVER THE PARTIES THEMSELVES ARE READY. IN THE MEANTIME, WE ARE ACTIVELY ADDRESSING THE HUMAN DIMENSION BOTH FINANCIALLY AND DIPLOMATICALLY. THESE PROGRAMS HAVE THE FULL SUPPORT OF THE HIGHEST LEVELS OF THE U.S. GOVERNMENT AND, AS CIRCUMSTANCES ALLOW, WE ARE PREPARED TO DO EVEN MORE.

$5.8 MILLION WILL SUPPORT THE REGIONAL COOPERATION PROGRAM, WHICH CONSISTS OF A VARIETY OF JOINT PROJECTS INVOLVING ISRAELI AND EGYPTIAN PARTICIPATION. WE SEEK TO USE THESE FUNDS IN A MANNER THAT PROMOTES CONTACTS BETWEEN ISRAELI UNIVERSITIES, GOVERNMENT MINISTRIES AND PRIVATE ORGANIZATIONS AND THEIR COUNTERPARTS IN EGYPT. COOPERATIVE PROJECTS HELP PROMOTE RELATIONSHIPS BETWEEN ISRAELIS AND THEIR ARAB NEIGHBORS, THUS HELPING TO BREAK DOWN BARRIERS BETWEEN PEOPLE AND TO PROMOTE MUTUAL UNDERSTANDING. ONGOING PROJECTS INCLUDE: ARID LANDS AGRICULTURE, TECHNOLOGY EXCHANGE IN AGRICULTURE, MARINE SCIENCES AND RESEARCH ON INFECTIOUS DISEASES.

FOR THE FIRST TIME, $5 MILLION IN ESF FROM THE MIDDLE EAST REGIONAL PROGRAM IS PROPOSED FOR THE AMERICAN UNIVERSITY OF BEIRUT (AUB). THIS REGIONAL PROGRAM IS RECOMMENDED AS A SOURCE OF FUNDING TO AVOID CONFLICT BETWEEN THE NEEDS OF AUB AND THE NEEDS OF LEBANON. IT IS ALSO LOGICAL BECAUSE THE AMERICAN UNIVERSITY OF BEIRUT IS AN INVALUABLE REGIONAL INSTITUTION SERVING THE EDUCATIONAL NEEDS OF THE AREA. THESE FUNDS WILL DEFRAY OPERATING COSTS OF THE UNIVERSITY AND THE UNIVERSITY HOSPITAL. LOWER STUDENT ENROLLMENTS, THE ADDED BURDEN TO THE HOSPITAL RESULTING FROM CARING FOR CASULTIES FROM THE FIGHTING, AND THE WEAKNESS OF THE LEBANESE CURRENCY HAVE CONTRIBUTED TO AUB BUDGET DEFICITS. IN ADDITION TO THE $5 MILLION FROM THIS REGIONAL PROGRAM, IT IS ANTICIPATED THAT AMERICAN SCHOOLS AND HOSPITALS ABROAD (ASHA) WILL ALSO ASSIST THE AMERICAN UNIVERSITY OF BEIRUT WITH FUNDING.

$4.17 MILLION IN DEVELOPMENT ASSISTANCE FUNDS WILL FINANCE

EIGHT REGIONAL PROJECTS IN SUCH AREAS AS POPULATION, PRIVATE ENTERPRISE, ENVIRONMENT AND AGRICULTURE AS WELL AS PROJECT DESIGN AND EVALUATION.

SOUTHWEST ASIA/PERSIAN GULF/NORTH AFRICA: THE SOUTHWEST ASIA/PERSIAN GULF REGION, A CRITICAL SOURCE OF ENERGY TO THE FREE WORLD, IS THREATENED BY SOVIET ENCROACHMENT THROUGH AFGHANISTAN AND BY RADICAL FORCES FROM WITHIN THE REGION. OVER 25% OF THE FREE WORLD'S OIL PRODUCTION ORIGINATES IN THE PERSIAN GULF. THROUGH OUR ASSISTANCE, WE HELP TO IMPROVE THE SECURITY OF THESE COUNTRIES AND TO MAINTAIN THE AVAILABILITY OF THESE VITAL OIL
SUPPLIES. OUR PROGRAMS ARE DIRECTED AT SUPPORTING THOSE COUNTRIES IN THE REGION WHICH PROVIDE IMPORTANT ACCESS TO MILITARY FACILITIES AS WELL AS OTHER NATIONS WHICH PROVIDE TRANSIT RIGHTS INTO THE REGION SHOULD THEY BE REQUIRED BY U.S. FORCES IN TIME OF CRISIS.

OMAN: OMAN, STRATEGICALLY LOCATED AT THE ENTRANCE TO THE PERSIAN GULF, COOPERATES CLOSELY WITH THE U.S. IN OUR COMMON OBJECTIVES OF MAINTAINING SECURITY AND STABILITY IN THAT VITAL AREA AND ASSURING FREEDOM OF NAVIGATION THROUGH THE STRAIT OF HORMUZ AND ITS APPROACHES. OMAN'S AGREEMENT TO PERMIT ACCESS TO ITS FACILITIES REPRESENTS A MAJOR CONTRIBUTION TO AMERICAN FORCE PROJECTION CAPABILITY IN SOUTHWEST ASIA. THE MILITARY SUPPLY AND TRAINING RELATIONSHIP BETWEEN OUR TWO COUNTRIES

CONTRIBUTES TO OMAN'S CONTINUED WILLINGNESS TO COOPERATE WITH THE U.S. IN SECURITY MATTERS.

IN AN EFFORT TO BROADEN OUR RELATIONSHIP WITH OMAN BEYOND ITS SECURITY ASPECTS, THE OMANI-AMERICAN JOINT COMMMISSION WAS ESTABLISHED IN 1980. ESF ASSISTANCE FUNDS THE U.S. CONTRIBUTION TO THIS JOINT COMMISSION WHICH PROVIDES TECHNICAL ASSISTANCE FOR THE DEVELOPMENT OF THE NON-OIL SECTORS OF OMAN'S ECONOMY. OMANI PROVEN OIL RESERVES ARE MODEST, ACCOUNTING FOR ABOUT 0.6% OF THE FREE WORLD'S PROVEN RESERVES. PRESENT RESERVES WILL BE DEPLETED IN ABOUT TWENTY YEARS AT CURRENT PRODUCTION LEVELS. NON-OIL RESOURCES ARE VERY LIMITED.

OUR FISCAL YEAR 1986 REQUEST FOR OMAN INCLUDES $58.3 MILLION IN FMS CREDITS, $20 MILLION IN ESF AND $150 THOUSAND IN IMET. A SIGNIFICANT INCREASE IN FMS CREDITS IS REQUESTED TO HELP OMAN BEAR THE COST OF UPGRADING AND MODERNIZING ITS AIR DEFENSE CAPABILITY AS PART OF A COLLECTIVE EFFORT BY GULF COOPERATION COUNCIL (GCC) STATES. THE CONTINUED THREAT OF MILITARY ATTACK BY IRAN HAS REQUIRED OMAN TO INCREASE DEFENSE EXPENDITURES IN RECENT YEARS TO APPROXIMATELY 48% OF BUDGETED EXPENDITURES, ONE OF THE HIGHEST LEVELS IN THE WORLD. THE SMALL IMET PROGRAM WILL PROVIDE ADVANCED TRAINING FOR OFFICERS IN THE SULTAN'S ARMED FORCES; THIS WILL HELP TO SUPPORT THE OMANI GOVERNMENT'S GOAL OF OMANIZATION.

$15 MILLION OF THE $20 MILLION IN ESF WILL BE USED TO IMPROVE AND EXPAND THE WATER SUPPLY SYSTEM FOR THE CAPITAL REGION; THE REMAINDER WILL FUND SCHOLARSHIPS AND TRAINING AS WELL AS FEASIBILITY AND DESIGN STUDIES AND TECHNICAL ASSISTANCE.

YEMEN: THE PROPOSED FISCAL YEAR 1986 ASSISTANCE PROGRAM FOR THE YEMEN ARAB REPUBIC (YAR) IS NECESSARY TO MAINTAIN A BILATERAL ASSISTANCE PROGRAM WHICH OFFERS A VISIBLE ALTERNATIVE TO YEMEN'S PRESENT HEAVY DEPENDENCE ON SOVIET ASSISTANCE. THE STRATEGIC LOCATION OF THE YEMEN ARAB REPUBLIC, ITS POROUS BORDER WITH SAUDI ARABIA, AND THE LARGE NUMBERS OF YEMENIS WORKING IN THE OIL STATES OF THE PENINSULA UNDERSCORE THE IMPORTANCE OF YEMEN TO REGIONAL STABILITY AND, HENCE, TO U.S. INTERESTS IN THE AREA. FURTHERMORE, THE YAR IS A "BUFFER" BETWEEN THE MARXIST PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN AND SAUDI ARABIA. ONE OF THE GOALS OF U.S. SECURITY ASSISTANCE TO YEMEN IS TO INCREASE THE EFFECTIVENESS OF THE YEMENI ARMED FORCES AS A DETERRENT TO POTENTIAL MILITARY ADVENTURISM BY THE MARXIST REGIME IN SOUTH YEMEN.

FOR YEMEN, OUR FISCAL YEAR 1986 REQUEST CONSISTS OF $29 MILLION IN DEVELOPMENT ASSISTANCE, $6 MILLION IN MAP, $1.55 MILLION IN IMET AND $5 MILLION IN PL480 TITLE I.

YEMEN IS ONE OF THE POOREST AND LEAST DEVELOPED NATIONS IN THE MIDDLE EAST. IN THE LAST TWO YEARS, YEMEN HAS BEEN

SERIOUSLY AFFECTED BY A SHARP DECLINE IN ARAB DONOR AID AND A LEVELING OFF OF WORKER REMITTANCES. THE YAR GOVERNMENT HAS ALSO HAD TO COPE WITH A DEVASTING EARTHQUAKE IN DECEMBER 1982 WHICH LEFT UP TO 400,000 HOMELESS. IN VIEW OF THE SEVERE CONSTRAINTS IN THE DEVELOPMENT ASSISTANCE ACCOUNT, WE ARE PROPOSING A $29 MILLION LEVEL, WHICH IS BASICALLY THE SAME AS THE CURRENT LEVEL. HOWEVER, THIS ASSISTANCE REQUEST WILL BE SUPPLEMENTED BY $5 MILLION IN PL480 TITLE I FOOD AID WHICH WILL HELP IN FILLING A GAP WHICH HAS BEEN CREATED BY AN ONGOING DROUGHT.

A $1 MILLION INCREASE IN MAP IS PROPOSED OVER THE CURRENT FY 85 LEVEL OF $5 MILLION. OUR MAP ASSISTANCE WILL BE USED TO FUND SUPPLEMENTAL TRAINING, MUNITIONS, MAINTENANCE AND SUPPORT EQUIPMENT. THE IMET PROGRAM SEEKS TO EXPOSE AS MANY YEMENI MILITARY PERSONNEL AS POSSIBLE TO TRAINING IN THE U.S., ALTHOUGH SOME TRAINING, IN PARTICULAR ENGLISH LANGUAGE INSTRUCTION, TAKES PLACE IN COUNTRY. AREAS OF FOCUS INCLUDE: OPERATIONS, COMMUNICATIONS, MAINTENANCE AND LOGISTICS.

MOROCCO:

U.S. RELATIONS WITH MOROCCO ARE BASED ON A LONG RECORD OF COOPERATION, SHARED FOREIGN POLICY INTERESTS, AND MUTUAL

RESPECT. DESPITE DIFFERING VIEWS ON HOW TO DEAL WITH LIBYA'S QADHAFI, BILATERAL RELATIONS REMAIN STRONG, GROUNDED IN A FIRM FOUNDATION OF MUTUAL BENEFIT. AS CHAIRMAN OF THE ISLAMIC CONFERENCE AND THE ARAB LEAGUE SUMMIT, KING HASSAN PLAYS A LEADING, MODERATE ROLE IN THE ARAB WORLD.

THE TREATY OF UNION BETWEEN MOROCCO AND LIBYA HAS BEEN A CAUSE OF GREAT CONCERN. KING HASSAN AFFIRMED THAT IT WOULD HAVE NO EFFECT ON THE US-MOROCCAN RELATIONSHIP AND THAT BOTH MOROCCO AND LIBYA WOULD REMAIN TOTALLY INDEPENDENT AND EACH WOULD PURSUE ITS OWN FOREIGN POLICY OBJECTIVES. OUR OPPOSITION TO THE AGREEMENT WAS MADE CLEAR TO MOROCCO. TO DATE IT APPEARS THE AGREEMENT HAS BEEN SUFFICIENTLY CIRCUMSCRIBED. WE WILL, HOWEVER, CONTINUE TO MONITOR ITS APPLICATION.

CURRENTLY, THE MOROCCAN ECONOMY IS BESET BY A COMBINATION OF FACTORS BEYOND THE IMMEDIATE CONTROL OF THE MOROCCAN GOVERNMENT. THE COUNTRY'S MAJOR SOURCE FOR FOREIGN EXCHANGE, EXPORT OF PHOSPHATES AND DERIVATIVES, SUFFERS FROM LOW WORLD PRICES AND A FLAT MARKET. TOTALLY DEPENDENT ON IMPORTED ENERGY, MOROCCO HAS HAD TO BEAR THE BURDEN OF HIGH COST IMPORTS DENOMINATED IN U.S. DOLLARS. THUS, MOROCCO'S ECONOMIC PLIGHT HAS BEEN EXACERBATED BY THE STRENGTH OF THE DOLLAR, A FACTOR WHICH ALSO HAS AFFECTED OTHER IMPORTS INCLUDING CRITICAL FOOD

STUFFS AND COMMODITIES. CHRONIC UNEMPLOYMENT AND UNDEREMPLOYMENT, ALONG WITH RAPID POPULATION EXPANSION, FURTHER BURDEN THE MOROCCAN ECONOMY.

THE MOROCCAN 1985 DEBT SERVICE RATIO, PRIOR TO RESCHEDULING, IS ESTIMATED TO BE GREATER THAN 50 PERCENT. THIS COMPLICATES THE MORROCAN GOVERNMENT'S PROSPECTS FOR ARRANGING NECESSARY FINANCING FOR GOVERNMENT PROJECTS AND NECESSARY IMPORTS.

DESPITE THE SERIOUS PROBLEMS WHICH CONFRONT IT, THE MOROCCAN GOVERNMENT HAS DEMONSTRATED ITS DETERMINATION TO RATIONALIZE THE ECONOMIC AND FINANCIAL SITUATION. PARTICIPANTS IN AN IBRD CONSULTATIVE GROUP WHICH MET IN PARIS THIS JANUARY WERE UNIFORMLY IMPRESSED BY THE SERIOUSNESS OF PURPOSE DEMONSTRATED BY MOROCCO IN PURSUING ECONOMIC REFORM AND AUSTERITY. THESE PROPOSED POLICIES WILL SET THE BACKGROUND FOR A MOROCCAN REQUEST FOR A NEW DEBT RESCHEDULING BY THE PARIS CLUB LATER THIS SPRING.

OUR FY 1986 REQUEST FOR ECONOMIC ASSISTANCE, WHICH INCLUDES $19 MILLION IN DEVELOPMENT ASSISTANCE, $22.5 MILLION IN ESF, AND $44.9 MILLION IN PL 480 FOOD AID, WILL ADDRESS THE DEEPER MOROCCAN ECONOMIC PROBLEMS THROUGH LONGER TERM EXPANSION OF

PRODUCTIVE CAPACITY AND BY ENCOURAGING THE SORTS OF ECONOMIC POLICIES WHICH, IF PURSUED CONSISTENTLY AND VIGOROUSLY, ULTIMATELY SHOULD HELP RIGHT THE SITUATION. A SHIFT IN MILITARY ASSISTANCE FROM LOANS TO GRANTS AND AN INCREASE IN ESF REFLECTS OUR DETERMINATION TO AMELIORATE THE OUT-YEAR DEBT IMPLICATIONS STEMMING FROM OUR MILITARY ASSISTANCE PROGRAMS.

OUR MILITARY ASSISTANCE TO MOROCCO IS INTENDED TO ENABLE THE MOROCCAN GOVERNMENT TO MAINTAIN AND OPERATE US-ORIGIN EQUIPMENT PROVIDED UNDER EARLIER PROGRAMS. PROPOSED FY 1986 LEVELS OF $45 MILLION IN MAP, $5 MILLION IN FMS CREDITS AT CONCESSIONAL INTEREST RATES AND $1.85 MILLION IN IMET WILL GO A LONG WAYS TOWARDS MEETING MOROCCO'S LEGITIMATE, BUT INCREASINGLY COSTLY NEEDS IN THIS RESPECT.

ALGERIA:

ON APRIL 17, PRESIDENT BENDJEDID WILL PAY A STATE VISIT TO WASHINGTON. THIS CLEARLY POINTS TOWARDS CONTINUING IMPROVEMENT IN BILATERAL RELATIONS, AN IMPROVEMENT MARKED EARLIER BY SUCH NOTABLE ACHIEVEMENTS AS THE ALGERIAN ROLE IN OBTAINING RELEASE OF OUR TEHRAN HOSTAGES. WE WELCOME THE EXPANDED RELATIONSHIP.

IN FISCAL YEAR 1986, WE PROPOSE A MODEST INCREASE IN THE IMET PROGRAM FOR ALGERIA, UP FROM THE FY 1985 INITIAL PROGRAM

OF $50,000 TO $100,000. WE SEEK THROUGH THIS PROGRAM TO ENCOURAGE THE PROFESSIONAL DEVELOPMENT OF SELECTED ALGERIAN MILITARY PERSONNEL AS WELL AS TO PROMOTE FURTHER CONTACT BETWEEN U.S. AND ALGERIAN ARMED FORCES.

FORTUNATELY, THE ECONOMIC CIRCUMSTANCES FOR THE ALGERIAN GOVERNMENT ARE REASONABLY BRIGHT. ALTHOUGH THE SOFT MARKET FOR HYDROCARBONS HAS AFFECTED REVENUES NEGATIVELY, PER CAPITA INCOME IN ALGERIA IS ABOUT $2400 -- APPROXIMATELY TWICE OF THAT IN TUNISIA AND ALMOST THREE TIMES THAT IN MOROCCO. THIS ENABLES THE ALGERIAN GOVERNMENT TO PURCHASE ITEMS ON A CASH BASIS.

WE DO NOT HAVE LONG-STANDING SECURITY ASSISTANCE RELATIONSHIPS WITH ALGERIA. TO DATE, MILITARY SALES HAVE CONSISTED OF 17 C-130S AND MISCELLANEOUS TRAINING. ANY FUTURE SALES WILL BE CONSIDERED IN RELATION TO ALGERIA'S LEGITIMATE INTERNAL SECURITY NEEDS AND THE OVERALL MILITARY SITUATION IN THE REGION.

TUNISIA:

OUR HISTORIC, FRIENDLY RELATIONS WITH TUNISIA CONTINUE. WE TAKE PRIDE IN HAVING CONTRIBUTED TO STEADY ECONOMIC DEVELOPMENT AND IN HELPING TO MEET THE COUNTRY'S SECURITY NEEDS.

Although much has been accomplished under the leadership of President Bourguiba, Tunisia has experienced social stress which erupted into violence early in 1984 following a sharp increase in the price of bread. After several years of difficulty, Tunisia's economy is showing signs of modest recovery; however, a trade deficit combined with lower receipts from tourism and workers' remittances are adding to Tunisia's debt. Another serious and continuing problem is unemployment. As is the case in Morocco, we seek through our ESF program to foster greater productivity in the Tunisian economy.

Like Morocco and Algeria, the Tunisian government is placing great emphasis on rural and agricultural development. Our ESF program is designed to complement these objectives, e.g. through the allocation of resources to the Central Tunisia Project, which is an integrated rural development scheme and to a credit project for small farmers. In addition, the FY 1986 ESF will support population planning, private sector development and scholarships for study in the U.S.

Tunisia, because of its geographical proximity, is even more vulnerable to Libyan adventurism than are Algeria and Morocco. Over the past year we have delivered twelve F-5 fighter aircraft (one squadron) and 54 M-60A3 tanks to the

TUNISIANS. OUR FY 1986 REQUEST FOR $53 MILLION IN FMS CREDITS AND $16 MILLION IN MAP WILL BE USED TO CONTINUE THE MODERNIZATION PROGRAM OUTLINED BY A JOINT STATE/DEFENSE SURVEY TEAM IN 1980 AND WILL INCLUDE THE PURCHASE OF TWO C-130 AIRCRAFT, HOWITZERS AND TOW MISSILES AS WELL AS FOLLOW-ON SUPPORT FOR PREVIOUSLY ACQUIRED U.S. EQUIPMENT. WE CONSIDER THAT THIS IS A CONTRIBUTION TO TUNISIA'S DEFENSE CAPABILITY AND VISIBLE EVIDENCE OF U.S. SUPPORT WHICH WILL MAKE THE GOVERNMENT OF TUNISIA MORE CONFIDENT IN DEALING WITH LIBYAN THREATS AND PRESSURES.

SOUTH ASIA

UNITED STATES PRIMARY OBJECTIVE IN SOUTH ASIA IS TO ENCOURAGE THE GROWTH OF STABLE, STRONG, INDEPENDENT NATIONS WHICH LIVE IN PEACE WITH ONE ANOTHER FREE OF OUTSIDE INTERFERENCE. WE SEEK TO DETER SOVIET EXPANSIONISM, TO PREVENT NUCLEAR PROLIFERATION, TO EXPAND HUMAN FREEDOM AND DEMOCRACY, AND TO REDUCE DRUG TRAFFICKING. WE SEEK TO CONTRIBUTE TO THE EFFORTS THAT THE SOUTH ASIAN COUNTRIES ARE MAKING TO DEVELOP THEMSELVES ECONOMICALLY AND TO ACHIEVE HIGHER LIVING STANDARDS FOR THEIR PEOPLE. THE FUNDAMENTAL PRINCIPLE UNDERLYING OUR ASSISTANCE PROGRAMS IN SOUTH ASIA IS TO RESPOND TO THE NEEDS AND PRIORITIES OF THESE NATIONS THEMSELVES. OUR PROPOSED

FY 1986 LEVELS FOR SOUTH ASIA HAVE BEEN SET WITH THE NEED FOR BUDGET AUSTERITY IN MIND.

PAKISTAN: OUR GOAL OF A SECURE, STABLE AND PROSPEROUS PAKISTAN SERVES OUR OWN INTERESTS AT THIS JUNCTION POINT OF SOUTH, SOUTHWEST AND CENTRAL ASIA WITH THE INDIAN OCEAN. WE ARE REQUESTING $325 MILLION IN FMS CREDITS, $1.2 MILLION IN IMET AND $325 MILLION IN A MIX OF ECONOMIC ASSISTANCE PROGRAMS. THESE TOTALS, WHICH REFLECT A 3.2 PERCENT INCREASE OVER THE FY 1985 ESTIMATES, ARE IN ACCORDANCE WITH THE MULTIYEAR ASSISTANCE PROGRAM AGREED TO WITH THE PAKISTAN GOVERNMENT IN LATE 1981 AND INVOLVING CLOSE CONSULTATION WITH CONGRESS.

THE PRESSURES FACING PAKISTAN IN 1981 WHICH WARRANTED THE INITIATION OF A MAJOR U.S. AID PROGRAM HAVE NOT ABATED; IN FACT, DURING 1984, THESE PRESSURES INCREASED PERCEPTIBLY. SOVIET INTIMIDATION WAS STEPPED UP AS CROSS BORDER ATTACKS FROM AFGHANISTAN INTO PAKISTAN LEFT SEVERAL HUNDRED CIVILIANS INSIDE PAKISTAN DEAD OR WOUNDED. HARSH SOVIET THREATS AIMED AT UNDERMINING PAKISTAN'S SENSE OF SECURITY CONTINUED THROUGHOUT THE YEAR. PAKISTAN STOOD STEADFAST, DESPITE THESE THREATS, REFUSING TO RECOGNIZE THE SOVIET-CONTROLLED REGIME IN KABUL OR TO ACQUIESCE IN THE CONTINUED SOVIET EFFORTS TO SUBJUGATE THE AFGHAN PEOPLE.

SOVIET PRESSURE ON PAKISTAN HAS INCREASED AS A CONSEQUENCE

OF SOVIET FRUSTRATION AT ITS CONTINUING INABILITY TO MAKE GOOD ITS CONQUEST OF AFGHANISTAN. THE SOVIETS IN 1984 FOUND THEMSELVES NO CLOSER TO DEFEATING THE AFGHAN RESISTANCE THAN THEY WERE IN 1979. THE RESISTANCE, FACING THE MODERN WAR MACHINE OF A SUPERPOWER, HELD ITS OWN THROUGHOUT 1984 AND REMAINS CAPABLE OF STRIKING ALMOST AT WILL ANYWHERE IN THE COUNTRY.

WHILE SOVIET TROOPS CONTINUE THEIR AGGRESSION IN AFGHANISTAN AND SOVIET PRESSURE ON PAKISTAN INCREASES, UN-LED EFFORTS TO REACH A POLITICAL SETTLEMENT FOR AFGHANISTAN HAVE FAILED TO ELICIT A MEANINGFUL SOVIET RESPONSE. THE U.S. AND PAKISTAN REMAIN COMMITTED TO SEEKING A PEACEFUL SETTLEMENT WHICH WOULD INCLUDE THE WITHDRAWAL OF SOVIET TROOPS, RESPECT FOR THE INDEPENDENT AND NON-ALIGNED STATUS OF AFGHANISTAN, DETERMINATION BY THE AFGHAN PEOPLE OF THEIR OWN FORM OF GOVERNMENT, AND THE SECURE RETURN OF THE REFUGEES.

IN THE ABSENCE OF A POLITICAL SETTLEMENT IN AFGHANISTAN, WE MUST CONTINUE URGENTLY TO ADDRESS PAKISTAN'S SECURITY NEEDS. OUR PROPOSED FY 1986 PACKAGE OF FMS CREDITS AND IMET WILL HELP MEET CRITICAL PAKISTANI NEEDS FOR MODERNIZATION OF THEIR ARMED FORCES. OUR OVERALL PROGRAM WILL ENABLE PAKISTAN TO CONTINUE ITS STEADY OPPOSITION TO SOVIET AGGRESSION IN AFGHANISTAN AND

CONTINUE TO HOST THE AFGHAN REFUGEES, WHILE PURSUING ESSENTIAL ECONOMIC DEVELOPMENT PROGRAMS. OUR PROPOSED FY 1986 ECONOMIC ASSISTANCE PACKAGE OF $325 MILLION WILL WORK DIRECTLY TOWARD ASSISTING PAKISTAN'S LONG-TERM DEVELOPMENT EFFORTS IN THE FIELDS OF HEALTH, POPULATION, ENERGY, AND AGRICULTURE WHILE PROVIDING SHORT-TERM BALANCE-OF-PAYMENTS SUPPORT.

THE EXTRAORDINARY GENEROSITY AND SENSE OF HUMANITARIAN RESPONSIBILITY WITH WHICH THE PAKISTANI GOVERNMENT AND PEOPLE HAVE SHOULDERED THE BURDEN OF OVER 2 MILLION AFGHAN REFUGEES DESERVES SPECIAL NOTE. U.S. SUPPORT THROUGH THE UNHCR AND WORLD FOOD PROGRAM HELPS ALLEVIATE THE SERIOUS STRAIN ON PAKISTANI RESOURCES.

THE PAKISTANI ECONOMY SUFFERED RECENTLY FROM A SHARP DOWNTURN IN WORKERS REMITTANCES AND CROP SHORTFALLS. ECONOMIC GROWTH HAS BOUNCED BACK, BUT BALANCE OF PAYMENTS PRESSURES HAVE INCREASED. OUR PROJECTED FY 1986 NET AID FLOW TO PAKISTAN OF NEARLY $500 MILLION WILL PLAY A SPECIAL ROLE IN HELPING PAKISTAN TO ADJUST TO THESE NEW AND ADVERSE BALANCE OF PAYMENTS REALITIES. IN ADDITION, OUR SIZEABLE ESF AND DEVELOPMENT ASSISTANCE IS TWO-THIRDS GRANT, THUS HELPING TO COUNTER-BALANCE THE ADDITIONAL LONG-TERM DEBT BURDEN RESULTING FROM SUBSTANTIAL FMS-FINANCED MILITARY PURCHASES AT NEAR COMMERCIAL RATES.

Our assistance to Pakistan helps create economic conditions necessary for growth with political stability. At the same time, we have encouraged the martial law administration of President Zia to move Pakistan toward constitutional government based on representative political institutions. The recent elections held in Pakistan demonstrate the commitment of the government to moving in this direction.

An important U.S. concern also served by our economic assistance is narcotics control. Roughly one-half of all heroin on the U.S. market is South and Southwest Asian in origin. While Pakistani production has been substantially reduced, significant amounts still transit Pakistan. We have a well-established program in Pakistan to help eradicate opium production and shut down heroin labs, but the task is far from complete. Our FY 1986 program combines economic assistance funding for integrated rural development, along with U.S.-Pakistani law enforcement cooperation and funding for outreach programs to the Pakistani public.

Another critical U.S. regional and global interest served by our assistance program is non-proliferation. We have conveyed to the Pakistan Government the serious concern of the U.S. Government on this matter at every opportunity. We welcome President Zia's public assurances regarding the

PEACEFUL NATURE OF PAKISTAN'S NUCLEAR PROGRAM. WE BELIEVE OUR ASSISTANCE PROVIDES PAKISTAN WITH THE CONFIDENCE IN ITS SECURITY NECESSARY FOR PAKISTAN'S LEADERSHIP TO ESCHEW THE ACQUISITION OF A NUCLEAR EXPLOSIVES CAPABILITY.

INDIA

INDIA HOLDS A PLACE OF CENTRAL IMPORTANCE FOR THE UNITED STATES IN OUR APPROACH TO SOUTH ASIA. AS ONE OF THE WORLD'S GREAT DEMOCRACIES, AS AN IMPORTANT SPOKESMAN FOR THE NEEDS AND CONCERNS OF DEVELOPING COUNTRIES, AND AS THE PIVOTAL ELEMENT IN DETERMINING THE PROSPECTS FOR PEACE AND STABILITY IN SOUTH ASIA, INDIA IS AN ESSENTIAL PARTNER IF WE ARE TO SUCCESSFULLY PURSUE OUR GOALS REGIONALLY AND GLOBALLY. WE LOOK FORWARD TO A CONTINUATION OF THE STEADY IMPROVEMENT IN U.S.-INDIAN RELATIONS OF RECENT YEARS. DIFFERENCES REMAIN, AS THEY INEVITABLY MUST BETWEEN TWO STRONG AND INDEPENDENT NATIONS, ON A NUMBER OF IMPORTANT WORLD AND REGIONAL ISSUES; BUT WE ARE ABLE TO ADDRESS THESE ISSUES THROUGH FRANK AND OPEN DIALOGUE.

IN THE PAST YEAR, INDIA HAS EXPERIENCED MORE THAN ITS FAIR SHARE OF TRAGEDIES AND CHALLENGES: GROWING SIKH UNREST IN THE PUNJAB, CULMINATING IN THE JUNE 6 ASSAULT ON THE GOLDEN TEMPLE; THE ASSASSINATION OF PRIME MINISTER INDIRA GANDHI ON OCTOBER 31

AND SUBSEQUENT VIOLENCE RESULTING IN THE DEATHS OF SEVERAL THOUSANDS; AND THE UNPRECEDENTED INDUSTRIAL ACCIDENT AT THE UNION CARBIDE PLANT AT BHOPAL ON DECEMBER 3, KILLING SOME 2,000 RESIDENTS AND INJURING MANY THOUSAND OTHERS. INDIA EMERGED FROM THIS DIFFICULT PERIOD WITH ITS FUNDAMENTAL STRENGTH AND STABILITY VERY MUCH INTACT, ILLUSTRATING ONCE AGAIN THE STRENGTH OF ITS DEMOCRATIC TRADITIONS AND INSTITUTIONS.

THE NEW PRIME MINISTER HAS DECLARED THAT ONE OF HIS TOP PRIORITIES WILL BE TO INJECT NEW VIGOR INTO AN ECONOMY PLAGUED BY INEFFICIENCY, OVERREGULATION, AND A SHORTAGE OF RESOURCES. HE HAS ALREADY TAKEN STEPS TO LOOSEN CONTROLS OVER INVESTMENTS AND IMPORTS IN CERTAIN INDUSTRIES, AND FURTHER MOVEMENT IN THIS DIRECTION APPEARS LIKELY.

THE TREND TOWARDS FURTHER ECONOMIC LIBERALIZATION IN INDIA COULD OPEN UP BROAD NEW VISTAS FOR SCIENTIFIC, TECHNICAL, AND INDUSTRIAL COLLABORATION WITH THE UNITED STATES. WE ARE ALREADY INDIA'S MOST IMPORTANT TRADING PARTNER, AS WELL AS ITS LARGEST SOURCE OF NEW INVESTMENTS AND TECHNICAL LICENSING AGREEMENTS FROM ABROAD. IN ADDITION, WE HAVE AN ACTIVE PROGRAM OF SCIENTIFIC EXCHANGES AS EVIDENCED BY THE LARGE NUMBERS OF INDIANS IN AMERICAN UNIVERSITIES, RESEARCH INSTITUTIONS, AND CORPORATIONS. A STEADY FLOW OF AMERICAN SCIENTISTS TRAVEL TO INDIA EACH YEAR. WE REGARD THIS AS A VERY HEALTHY PROCESS.

Indeed, through our trade and investment promotion efforts, through the Reagan-Indira Gandhi Science and Technology Initiative, and through our discussions aimed at establishing a Binational Rupee Fund for joint studies and exchanges, our two governments are making an important contribution.

India is by far the most advanced industrial country in South Asia, but the tragedy at Bhopal serves as a timely reminder of the need to devote consistent attention to health, safety, and environmental concerns as well as manpower training. The Indian Government is moving swiftly to strengthen regulations and procedures governing industrial facilities, an area in which the United States can make a contribution. We have begun to exchange views with Indian health and environmental experts, and expect such collaboration to continue as an important new area of emphasis in our science and technology exchange program.

We look forward to a continuation of the steady improvement in U.S.- Indian relations. Our aid program to India has been an important positive element in Indo-U.S. relations since Indian independence. For FY 1986, we are proposing a program of $85 million in development assistance, $93.5 million in PL-480 Title II food aid, and an IMET program of $350 thousand. Our assistance effort focusses on irrigation, agricultural research, forestry, family planning, health, and

NUTRITION. IN ADDITION, THERE IS INCREASING EMPHASIS ON THE RELEVANT APPLICATION OF SCIENCE AND TECHNOLOGY TO KEY DEVELOPMENT PROBLEMS. IT IS WELL-TARGETTED AT INDIA'S OWN DEVELOPMENT PRIORITIES, AND WILL SERVE U.S. INTERESTS IN THE REGION.

SRI LANKA

SRI LANKA IS A NATION WITH A STRONG DEMOCRATIC TRADITION AND BRIGHT HOPE FOR THE FUTURE. BUT FIRST IT MUST DEAL WITH SEVERE COMMUNAL PROBLEMS WHICH HAVE WORSENED OVER THE PAST YEAR, AS TAMIL DISSIDENTS SEEKING A SEPARATE NATION HAVE STEPPED UP ATTACKS ON GOVERNMENT SECURITY FORCES. EFFORTS TO REACH A POLITICAL ACCORD CAME TO AN END LAST DECEMBER WITH THE REJECTION OF THE GOVERNMENT'S PROPOSALS BY BOTH THE TAMIL LEADERSHIP AND BY HARDLINERS WITHIN THE SINHALESE COMMUNITY. WE BELIEVE THAT THE BEST HOPE FOR THE RESTORATION OF COMMUNAL HARMONY LIES IN AN EARLY RESUMPTION OF POLITICAL DIALOGUE AIMED AT ADDRESSING THE PROBLEMS OF TAMIL ALIENATION.

THE ECONOMY GREW BY A RESPECTABLE 5% IN 1984, SOMEWHAT LESS THAN ANTICIPATED BECAUSE OF FLOODS IN THE BEGINNING OF THE YEAR. THE SEPARATIST VIOLENCE HAS BEEN PRIMARILY CONFINED TO THE NORTH, THOUGH OTHER AREAS HAVE ALSO EXPERIENCED SOME ECONOMIC DISRUPTION DUE TO THE CONFLICT. ECONOMIC STRAINS ARE EVIDENT IN STAGNATION OF NON-TRADITIONAL EXPORTS, THE RISING

EXTERNAL DEBT BURDEN, AN APPARENT EROSION OF INVESTOR CONFIDENCE, AND CONTINUED BUDGETARY IMBALANCE EXACERBATED, NO DOUBT, BY THE GROWING COST OF MAINTAINING SECURITY. VIOLENCE IN THE NORTH IS TAKING A TOLL ON THE ECONOMY, AND THE PRESSURES SEEM LIKELY TO INCREASE WITH TIME IF A SOLUTION IS NOT FOUND.

OUR ECONOMIC ASSISTANCE PROGRAM IN SRI LANKA SERVES AS AN IMPORTANT DEMONSTRATION OF SUPPORT FOR ITS ECONOMIC POLICIES AND FOR ITS EFFORTS TO RESTORE THE COMMUNAL HARMONY SO ESSENTIAL TO FUTURE GROWTH AND STABILITY. FOR FY 1986, WE ARE PROPOSING $32 MILLION FOR DEVELOPMENT ASSISTANCE, $29.7 MILLION FOR PL-480 FOOD ASSISTANCE, AND $160 THOUSAND FOR IMET. THESE FUNDS ARE UTILIZED IN SUPPORT OF IRRIGATION, AGRICULTURAL RESEARCH, ENTREPRENEURIAL DEVELOPMENT, AND INSTITUTIONAL DEVELOPMENT IN THE HEALTH AND AGRICULTURAL SECTORS.

NEPAL

THE AIM OF U.S. ASSISTANCE TO NEPAL IS TO PROMOTE ECONOMIC AND POLITICAL DEVELOPMENT, WITH A VIEW TO CONTRIBUTING TO STABILITY IN THAT COUNTRY AND THEREBY IN THE REGION AS A WHOLE. NEPAL'S GEOGRAPHICAL POSITION BETWEEN CHINA AND INDIA MAKES THE MAINTENANCE OF ITS DOMESTIC STABILITY PARTICULARLY IMPORTANT IN A REGIONAL CONTEXT.

RELATIONS BETWEEN NEPAL AND THE UNITED STATES ARE EXCELLENT. WE VALUE NEPAL'S SUPPORT FOR UN PEACEKEEPING EFFORTS IN THE MIDDLE EAST, WHERE THE NEPALESE GOVERNMENT RECENTLY PROVIDED A BATTALION OF CRACK GHURKA TROOPS FOR UNIFIL. U.S MILITARY TRAINING UNDER IMET HAS ENCOURAGED NEPAL TO CONTRIBUTE FORCES TO UN PEACEKEEPING OPERATIONS WHILE TRYING TO MAINTAIN THE HIGH QUALITY AND EFFECTIVENESS OF NEPALESE FORCES.

WITH A PER CAPITA INCOME OF APPROXIMATELY $167 PER YEAR, NEPAL REMAINS ONE OF THE POOREST AND LEAST DEVELOPED NATIONS IN THE WORLD, RELYING HEAVILY ON THE AGRICULTURAL SECTOR WHICH EMPLOYS 90 PERCENT OF THE WORK FORCE. THANKS IN LARGE MEASURE TO A FAVORABLE MONSOON, THE ECONOMY GREW BY OVER 7 PERCENT IN 1983-84. BUT NEPAL CONTINUES TO FACE SEVERE DIFFICULTIES RELATED TO POVERTY, OVERPOPULATION, DEGRADATION OF THE ENVIRONMENT, AND RISING PRICES. FOREIGN ASSISTANCE IS CRITICAL IN FINANCING ECONOMIC DEVELOPMENT.

OUR ECONOMIC ASSISTANCE PROGRAM IN NEPAL FOCUSSES ON RESOURCE CONSERVATION, HEALTH AND FAMILY PLANNING, RURAL DEVELOPMENT, WATER MANAGEMENT, AND THE REHABILITATION OF IRRIGATION RESOURCES. FOR FY 1986, WE ARE PROPOSING $15 MILLION IN DEVELOPMENT ASSISTANCE, AND $110 THOUSAND IN IMET.

BANGLADESH

OUR ASSISTANCE IS CHANNELLED TO HELP MEET THE BASIC HUMAN NEEDS OF THIS VERY POOR NATION, WHILE FOSTERING SUSTAINED ECONOMIC GROWTH WHICH WILL HELP MOVE BANGLADESH OFF THE POVERTY TREADMILL. AT THE SAME TIME, WE SEEK THROUGH OUR ASSISTANCE TO ENCOURAGE MOVEMENT TOWARD LONG-TERM POLITICAL STABILITY UNDER REPRESENTATIVE INSTITUTIONS, A GOAL WE PURSUE THROUGHOUT SOUTH ASIA.

BANGLADESH, A RESOURCE POOR NATION OF 100 MILLION, BEARS AN ENORMOUS BURDEN IN PROVIDING FOR THE NEEDS OF ITS RAPIDLY GROWING POPULACE. RECOGNIZING THIS BURDEN, OUR PROPOSED AID IS ENTIRELY GRANT, SUPPORTING BANGLADESH'S DEVELOPMENT STRATEGY FOCUSED ON SUCH AREAS AS FAMILY PLANNING, AGRICULTURE, AND RURAL DEVELOPMENT. FOR FY 1986, WE ARE REQUESTING $78 MILLION IN DEVELOPMENT ASSISTANCE, PL-480 FOOD FOR PEACE TOTALLING $89 MILLION, AND $300 THOUSAND FOR OUR IMET PROGRAM.

WE HAVE ALSO WELCOMED BANGLADESH'S EFFORTS TO MOVE TOWARD CIVILIAN RULE THROUGH ELECTIONS. PRESIDENT ERSHAD HAS ANNOUNCED A REFERENDUM FOR MARCH 21 TO GARNER SUPPORT FOR NATIONAL ELECTIONS, AFTER WHICH HE HOPES TO RESUME NEGOTIATIONS WITH THE OPPOSITION POLITICAL PARTIES TO ESTABLISH AN

APPROPRIATE FRAMEWORK FOR THE ELECTIONS. WE SEE TRANSITION TO REPRESENTATIVE GOVERNMENT AS AN IMPORTANT STEP IN THE DEVELOPMENT OF ENDURING POLITICAL INSTITUTIONS IN BANGLADESH.

ANOTHER TREND FAVORABLE TO OUR INTERESTS IS BANGLADESH'S MODERATE FOREIGN POLICY AND CONSTRUCTIVE WORK IN INTERNATIONAL ORGANIZATIONS. THESE POSITIVE TRENDS REINFORCE OUR BASIC HUMANITARIAN INTEREST IN REMAINING INVOLVED IN BANGLADESH'S DEVELOPMENT EFFORTS.

IN SUMMARY, WE CONSIDER OUR FY 1986 SUBMISSION TO BE CONSISTENT WITH PROGRAMS WHICH THE CONGRESS SUPPORTED IN PREVIOUS YEARS, JUSTIFIABLE IN TERMS OF THE MULTIFACETED POLITICAL, ECONOMIC AND SECURITY REQUIREMENTS OF THE MIDDLE EAST, AND REALISTIC IN THE CONTEXT OF OUR BUDGETARY CONSTRAINTS.

Senator BOSCHWITZ. Do any of the other representatives of the administration have an opening statement?

STATEMENT OF BRADSHAW LANGMAID, JR., DEPUTY ASSISTANT ADMINISTRATOR FOR THE BUREAU OF THE NEAR EAST, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. LANGMAID. Mr. Chairman, I have submitted a rather long statement, for the record, and I would be glad to go to questions.

[Mr. Langmaid's prepared statement follows:]

STATEMENT OF
BRADSHAW LANGMAID, JR.
DEPUTY ASSISTANT ADMINISTRATOR
BUREAU FOR THE NEAR EAST
AGENCY FOR INTERNATIONAL DEVELOPMENT
BEFORE THE SENATE FOREIGN RELATIONS SUBCOMMITTEE ON NEAR EASTERN AND SOUTH ASIAN AFFAIRS
MARCH 21, 1985

Mr. Chairman and Members of the Committee:

I am pleased to discuss the President's request for economic assistance to countries in the Near East region. The President is requesting $984 million, consisting of $932 million in Economic Support Funds and $52.2 million in Development Assistance funds. Attached to this statement, which I am submitting for the record, is a table which summarizes the Administration's request. Under a separate appropriation, $276.5 million in Public Law 480 Titles I and II is also planned for countries in the Middle East. This request does not include funds for Israel which will be submitted separately.

Our request for countries in the Near East includes $910 million in Economic Support Funds and $48 million in Development Assistance. For regional projects we are requesting $22 million in ESF and $4.2 million in Development Assistance.

NEAR EAST COUNTRY PROGRAMS

The Administration's primary objective is to help bring a just and lasting peace to this crisis-torn area. Our economic assistance programs are designed to support the efforts of those governments which are undertaking risks on the road to peace, by addressing some of their pressing economic and long term development problems. Certain of our programs are directed at helping those countries which provide important access to the region for U.S. forces and support the latter's deployment in time of crisis. Through our support of long term economic and social development as well as economic stabilization programs, A.I.D. helps strengthen the recognition that the U.S. is dedicated to the security and well-being of all friendly states in the area.

EGYPT

For Egypt in fiscal year 1986, we are requesting $815 million under the Economic Support Fund, the same level Congress appropriated in FY 1985. In addition, $222.1 million is requested under PL 480 -- $213 million under Title I and $9.1 million under bilateral Title II programs. We propose that the ESF resources be made available as grants, continuing a policy set by Congress in FY 1981. PL 480 Title I would be provided as a loan payable over 40 years, including a ten year grace period. Interest on the loan would be two percent during the grace period and three percent thereafter.

The main components of the Egypt Economic Support Fund program are:

-- A balance of payments support program consisting of a $200 million Commodity Import Program, a $100 million cash transfer, and $213 million in PL 480 Title I food assistance.

-- A $300 million economic infrastructure program including $200 million for the high-priority wastewater rehabilitation and expansion programs in Cairo, $15 million for the Aswan High Dam rehabilitation program, and $85 million to stimulate local capacity for development through the Decentralization Sector Support program.

- -- $142 million to help increase production and productivity in industry and agriculture.

- -- $73 million to strengthen essential social services in areas such as family planning, health, education, and training, plus $9.1 million in PL 480 Title II in support of private voluntary activities.

This proposed FY 1986 assistance is consistent with Egypt's five year plan and builds upon the significant improvements in implementation of our ongoing program. It emphasizes greater concentration, impact and visibility.

This assistance effort is increasingly making itself felt in Egyptian life:

- -- Program implementation has accelerated steadily in the past two years. Expenditures exceeded new obligations for the second year in a row since the resumption of U.S. assistance in 1974. ESF expenditures in FY 1984 totalled $905 million and total expenditures including PL 480 were

$1.169 billion. For the second year in a row the pipeline was reduced. From a peak of nearly $2.7 billion at the end of FY 1982, it dropped to about $2.4 billion at the end of FY 1984.

-- The number of projects has been reduced from 79 in 1981 to an estimated 63 in 1986 programs concentration will continue as most new programs build on past successes.

-- The Decentralization Sector Support program has completed or has under way some 5,500 local infrastructure and service activities touching the lives of about 32.5 million people out of a total population of about 47 million.

-- Public awareness of family planning has grown and the use of modern contraceptives has increased. As a result, the population growth rate has declined from 3 percent in 1980 to 2.7 percent in 1983, according to Government of Egypt statistics.

-- AID investments in telecommunications are resulting in improved telephone service in Cairo. The first new telephone exchange began service in December 1983 and two additional exchanges started operating in FY 1984, providing service to 6.5 million subscribers.

-- The Suez cement plant is producing cement and the Quattamia cement plant will be completed within a year. These plants increase Egypt's domestic cement production by 60 percent, and together with other plants under construction should satisfy domestic demand for cement through 1990.

-- The first unit of the 900 megawatt Shoubra power plant was inaugurated February 12. Two additional units will be completed at six month intervals in 1985 and 1986.

-- In agriculture, where dramatic results are difficult to obtain, A.I.D. and the Egyptian Government have developed better varieties, improved irrigation systems and established effective credit mechanisms for Egyptian farmers. A new five-year National Agricultural Production campaign, A.I.D. will assist Egypt move tested technologies off the shelf and onto the farmers' fields. This program, combined with price policy changes undertaken by the Egyptians, will help to improve agricultural productivity.

A.I.D.'s conviction that our assistance is producing results is reinforced by the increasing Egyptian recognition of the value of the project portfolio. Egyptian ministers at all levels express high praise for our assistance in renovating the antiquated Cairo sewerage system and in bringing development "to the people" through the basic education and decentralization programs. Together we have learned how to target our foreign aid more effectively.

The Egyptian Economy.

Foreign Assistance is most effective when host government economic policies are structured in such a way to make the best and most productive use of resources. The policy momentum now under way in Egypt must be accelerated and broadened if the economy is to overcome the critical problems now confronting it.

The current account deficit for 1983/84 should be about the same as in 1982/83. Services receipts helped to offset a $475 million rise in the merchandise trade deficit. A major contributor was increased remittances from workers abroad as public sector banks were allowed to pay attractive near market exchange rates for remittances.

However, most recently, there are signs that the trade deficit will again increase because of a slowing of petroleum related exports, combined with increases in imports of consumption goods. Downward pressure on the pound has led the government to introduce a new official exchange rate in an attempt to encourage more foreign exchange to move through official channels. This amounted to a de facto partial devaluation. It remains to be seen whether this is the needed first step away from Egypt's complex exchange rate system and toward a more unified and flexible rate.

Despite the large current account deficit, the overall balance of payments in 1984 showed a modest surplus of about $200 million, compared to a surplus of $890 million the previous year. With the slowing of oil sales and oil-related earnings and an expected further increase in imports, the prospect is that Egypt's overall external balance will move into deficit this year.

Egypt's debt service ratio is probably close to 30 percent. This is a heavy but manageable burden. We estimate that Egypt's debt service will remain at about $3.8 billion in the current fiscal year.

Without further policy changes, Egypt's foreign exchange earnings are unlikely to grow rapidly enough to cover both rising imports and debt service. In fact, rapidly rising domestic consumption of low priced energy is likely to cut into oil exports. It is therefore urgent that steps be taken to encourage exports and to restrain consumer demand. Failure to act promptly could lead to increasingly serious balance of payments pressures.

The Egyptian government is aware of the extent and significance of its balance of payments and fiscal problems. It has begun making economic reforms to correct the causes of its problems. We believe the best way for A.I.D. to support these efforts is through a continuation of policy dialogue and with projects focused on critical needs in the Egyptian economy.

Our policy dialogue has been successful in creating a common appreciation for the major changes required in the Egyptian economy. While we may differ with the Egyptians on the pace of change, there is an expanding consensus in Egypt on the need to unify the exchange rate, to reduce subsidies, to increase charges for energy and water, and to improve producer prices for agricultural and manufactured goods.

The Egyptian government has launched a major public education campaign about the problems facing the Egyptian economy and has begun to introduce important economic reform measures at both the sectoral and the national levels. It is important to note that Egyptian policy makers who are taking these steps are under increasing public scrutiny. They recognize that reforms are necessary and in Egypt's own national interest. A.I.D.'s policy is to reinforce these positive trends. However, the Egyptians recognize that only through their own efforts can the basis be laid for a stable and productive economy.

JORDAN

In fiscal year 1986 we are requesting $20 million under the Economic Support Fund for Jordan, of which $17 million will be grants and $3 million will be a loan with maturity of 20 years, a five-year grace period, and five percent interest.

These resources will be used to support priority development programs in a country which is a moderate voice in the Arab world and seeks to play a positive role in responding to President Reagan's September 1, 1982 peace initiative.

While Jordan's level of per capita income places it in the ranks of the middle-income countries, its need for external resources is significant. Jordan continues to be highly dependent upon foreign assistance to finance its ambitious development plans, and, with the declining price of oil, some Arab donors have slowed or reduced their assistance to Jordan. Remittances from Jordanian workers abroad have also leveled off. In 1984, GNP growth slowed to 4%, well below recent growth rates, as retrenchment policies were adopted to adjust to reduced external grant receipts. With meager natural resources, Jordan's successes are due to government policies which encourage a dynamic private sector, and to a skilled and hard working labor force.

The fiscal year 1986 program will provide continued A.I.D. support for Jordan's institution building and technology transfer needs, particularly in the areas of agricultural development and water. A project concentrating on the country's extensive highland rainfed regions will increase agricultural production and stimulate more geographically balanced growth. In water we plan to assist in the Government's continued efforts systematically to locate, assess, and monitor groundwater resources throughout the country. Other plans include: a development administration training program that will provide promising key Jordanians with education in U.S. management techniques and other development-related fields; continued support to the Center for Industrial Development; and initiation of the fifth Technical Service and Feasibility Studies project through which priority development projects will be identified, developed, and evaluated.

LEBANON

For fiscal year 1986 we request $10 million in grant funds under the Economic Support Fund, a substantial reduction from the FY 1983-84 supplemental request of $150 million and the $20 million requested for FY 1985. Although most project activity remains suspended, evidence of our continued willingness to provide assistance remains important to demonstrate support for Lebanon during this most difficult period of political and economic turmoil.

We now maintain one American A.I.D. official in Beirut to manage the limited ongoing relief and reconstruction planning program. If the security situation improves, we hope to implement this year the $73.3 million unobligated balance of the $150 million supplemental program. The program we propose for FY 1986 focusses on health, housing, and reconstruction planning assistance. To the extent security conditions permit, we will continue to support: first, a program to improve the delivery of health services in the Greater Beirut area, where many people have been injured in the fighting and many families are displaced; second, the continuation of housing reconstruction and rehabilitation and other small-grade infrastructure activities; and lastly, technical assistance to improve the Lebanese Government's capacity to plan and implement reconstruction activities.

MOROCCO

For fiscal year 1986 we are requesting $19 million in Development Assistance funds and $22.5 million under the Economic Support Fund for Morocco. The Development Assistance and $10 million of the ESF are requested as grant, and the $12.5 million ESF balance is planned to be used as a loan with 10 years grace at 2% interest and a 30-year payback period at 3% interest. In addition, under a separate appropriation, we are requesting $40 million for PL 480 Title I and $4.9 million for the Title II program. This level of requested economic assistance reflects the fact that Morocco, as a long-standing friend of the U.S., continues to face a deteriorating economic situation marked by large budget and trade deficits, rapidly increasing service costs on external debt, and other difficult domestic economic problems.

Since the late 1970s Morocco has been struggling to overcome declining demand for its principal export, phosphates, and growing competition and protectionism that have limited agricultural exports. These negative export trends have coincided with dramatic increases in Morocco's import bills for energy and food. The global recession of the past three years, drought induced stagnation in domestic agricultural production, together with a continued high rate of population growth, have also contributed to Morocco's problems.

In July, 1983, the Moroccan Government adopted a broad program of austerity measures and reduced or eliminated subsidies thereby raising prices on consumer goods, water, electricity and petroleum products. The Government of Morocco also reduced its 1983 operating and investment budgets to curtail persistent deficits. In September, 1983, Morocco entered into a new 18-month stand-by arrangement with the IMF for $315 million. Important elements of the program include a sharp reduction in Government hiring, trade liberalization measures, and continuation of a flexible exchange rate policy which included a devaluation of 10 percent in August 1983.

Morocco rescheduled its official debt repayments in 1984 and will have to reschedule again in 1985. Even with successful debt reschedulings, Morocco will still require over $1 billion in financing during calendar year 1985 to meet its obligations. Active U.S. participation in a multi-donor assistance effort and the provision of additional support through ESF and PL 480 Title I, together with CCC credits, is critical to Morocco's recovery. Morocco's overall balance of payments problems, its requirement for a high level of wheat imports, the stagnant agricultural sector, and extensive unemployment and underemployment have led

A.I.D. to a strategy which concentrates on four priorities -- increasing food production on rainfed lands, reducing the rate of population growth, reducing energy costs, and promoting exports through the private sector. A.I.D. also provides modest levels of support for a participant training program at U.S. universities, and in-country for central, regional, and local government personnel. A.I.D.'s agricultural strategy combines Development Assistance funding, PL 480 Title I local currency sales proceeds, and Economic Support Funds in an integrated program to promote investment in agricultural production. The principal component of A.I.D.'s population strategy is to help the government to deliver, on a broad scale, basic health services combined with family planning education and commodities. In the energy sector, A.I.D. will continue to assist the Government of Morocco to improve its energy planning and policies, and to identify and exploit domestic sources of conventional and renewable energy. A new program is being designed for FY 1986 ESF funding which will provide incentives to private sector investments and exports, both of which will improve the balance of payments.

OMAN

In fiscal year 1986 we are requesting $20 million under the Economic Support Fund for Oman, of which $5 million will be in grants and $15 million in loans. The loan funds are repayable in twenty years with a five-year grace period and five percent interest.

In 1980, the United States agreed to establish a Joint Commission with Oman, through which modest levels of economic assistance would be channeled to respond to the Omani desire to broaden our bilateral relationship beyond mutual security concerns in the area.

Oman's high per capita income is based almost entirely on its oil wealth and obscures the fact that the overall level of economic development is low. The modernization process is only 15 years old and the country has spent large sums of money on creating the basic physical infrastructure upon which to launch effective development programs. Oman will require technical assistance for many years to implement development programs which will meet the needs of its people.

The fiscal year 1986 grant funds will support the work of the Joint Commission in performing feasibility studies and technical assistance, and will provide more funding for the participant training project, which began in fiscal year 1983. The $15 million loan will help finance the expansion and improvement of Muscat's water supply system.

TUNISIA

For Tunisia, we are requesting $22.5 million in ESF grants to promote technical training in the private sector and for projects in agriculture, rural development and population. Under a separate appropriation, $2.5 million in PL 480 is requested to help meet grain import needs and to support policy reforms in agriculture. These increases over prior year requests reflect our concern for recent economic deterioration and civil disturbances.

Tunisia is a moderate, pro-western Arab state with a demonstrated willingness to work with the United States toward the goal of peace in the Middle East. The country's economy expanded an average of 6.3 percent per year from 1971 to 1981, prompting A.I.D. to recommend a phaseout of concessional assistance, but then dropped sharply to a rate barely equal to the rate of population growth, during 1983 to 1984. The drop was caused largely by factors beyond the government's control: poor weather cut agricultural output; worldwide recession caused reductions in earnings from tourism worker remittances, petroleum, phosphate, and other exports. It is in our interest to demonstrate support for Tunisia during this difficult period in the country's history.

A.I.D. scholarships will increase Tunisian access to U.S. technology, with important implications for future trade and investment. We will help the private sector produce and market oral rehydration salts as a key health intervention and, in rural development, we will provide additional funding to a potable water component of the Central Tunisia Project. In agriculture, additional support to the Small Farmers Supervised Credit Project will build upon the success of our current project in further improving the efficiency of small and medium sized farms and technology transfer in agriculture. Population and family planning support will further encourage inclusion of demographic concerns in long range development planning, stimulate broader involvement by the private sector in contraceptive marketing, and improve integration of family planning activities within the Ministries of Health and Social Affairs.

YEMEN ARAB REPUBLIC

We are requesting $29 million in Development Assistance grants for Yemen in fiscal year 1986 and, under a separate appropriation, $5 million in PL 480 Title I to finance rice imports.

Despite several years of rapid domestic economic growth, Yemen still ranks as one of the world's poorest countries, particularly in terms of quality of life indicators. Beginning in the latter half of the 1970s, real gross domestic product expanded between 5 and 9 percent per annum, fueled primarily by the growth of remittances from Yemenis working abroad and by foreign assistance, principally from Arab donors. The world-wide recession, declining demand for Arab oil, and the Iran-Iraq war subsequently caused sharp declines in worker remittances and Arab donor assistance.

The balance of payments position has been improving, however, in recent years. Remittances have grown from a low of $1.0 billion in 1981 to $1.2 billion in 1983 and 1984. The Yemeni rial has been devalued 40 percent with respect to the U.S. dollar since November 1983, and this has been instrumental in bringing about a decline in imports.

In July 1984, oil was discovered in the Marib area, in presently unknown but commercially promising quantities. While petroleum exports are at least two to five years away, the prospect of oil sales could alter Yemen's investment climate. However, with official foreign exchange reserves at close to an irreducible minimum, a balance-of payments constraint will continue at least in the short term.

Aside from some agricultural potential and now the possibility of oil exports, Yemen's natural resources are meager. Yet there is a reasonable prospect that by building up the physical and human infrastructure, creating and strengthening institutions, mobilizing human resources and further encouraging a dynamic private sector, it will be possible to achieve substantial improvements in the quality of life for Yemeni citizens.

In this context, the A.I.D. strategy places particular emphasis on institutional and human resource development through technical assistance, while other donors, particularly the Arabs, emphasize capital construction projects. Our strategy addresses a wide range of agricultural problems through a long term, U.S. University, Title XII program with the Ministry of Agriculture; a similar collaborative assistance project in education which will improve primary education and teacher preparation; and a broad-based participant training project to introduce needed technical and managerial skills into governmental and private institutions. Sales proceeds from the FY 1984 and FY 1985 PL 480 Title I programs are being applied to housing repair and reconstruction in areas of the Dhamar province damaged by the December 1982 earthquake. The Yemen program also includes projects addressing health service delivery in the Tihama (the poorest area of the country), village-based development activities -- particularly rural water supply projects -- and an effort to promote family planning in a family health services context.

REGIONAL ACTIVITIES

In addition to these country programs, we are requesting $4.2 million in Development Assistance grant funds and $22 million in grants under the Economic Support Fund for projects which impact primarily on the Middle East. The Development Assistance funds will finance project design and evaluation work ($800,000) for Near East development assistance programs, and eight projects ($3.4 million). These include: regional population activities; a Science and Technology Information Transfer project; a project to stimulate private enterprise development; a legal education for human rights project; a program to support small Peace Corps activities; a regional environmental protection project; a dryland agricultural research network; and a regional energy project.

The balance of our request under the Economic Support Fund will support development efforts in the West Bank and Gaza ($10 million), which are implemented in large part by American voluntary agencies and address needs in such areas as vocational and higher education, community development, health, land reclamation, improved water storage, and agriculture. In addition, $5.8 million is requested to finance cooperative scientific, technical and other activities of mutual interest to Israel and its Arab neighbors, and $5 million is requested for budgetary support for the American University in Beirut. Finally, ESF funds amounting to $1,200,000 will also support the above-mentioned regional population, legal education, and project development and support activities. Under a separate appropriation, $2 million in PL 480 Title II is requested for programs in the West Bank and the Gaza Strip.

Thank you, Mr. Chairman. I would be pleased to answer any questions that you and members of the Committee may have.

Attachment (program summary table)

NEAR EAST
PROGRAM SUMMARY
(in million of dollars)

		FY 1984 Actual	FY 1985 Estimated	FY 1986 Request
NEAR EAST				
Egypt	ESF	853.0 1/	815.0 3/	815.0
Israel	ESF	910.0	1,200.0	--- 7/
Jordan	ESF	20.0	20.0	20.0
Lebanon	ESF	27.8 2/	78.2 4/	10.0
Morocco	ESF	7.0	15.0	22.5
	DA	19.4 12/	19.2 5/	19.0 8/
Oman	ESF	15.0	20.0	20.0
Tunisia	ESF	1.5	20.0	22.5
	DA	.04	.04	0 8/
Yemen	DA	27.4 13/	29.0	29.0 8/
Sub-total ME	Total	1,881.1	2,216.5	958.0 11/
	ESF	1,834.3	2,168.2	910.0 11/
	DA	46.8	48.2	48.0
REGIONAL				
DA Reg. Activities		5.0	5.2	4.2
ESF Reg. Activities		14.0	15.0	22.0
(West Bank/Gaza)		(8.5)	(9.0)	(10.0)
(Regional Coop)		(3.6)	(5.0)	(5.8)
(AUB)		(0)	(0)	(5.0)
(Others, incl PD&S)		(1.9)	(1.0)	(1.2)
TOTAL-NEAR EAST 10/	Total	1,900.1	2,236.8	984.2 11/
	ESF	1,848.3	2,183.2	932.0 11/
	DA	51.8	53.6	52.2

1/ Figure includes $102,949 mil. in reobligations. 2/ $27.2 mil. from FY 1983 no-year funds carried over. Figure includes $557,000 in reobligations. 3/ Figure excludes planned reobligations. 4/ $73.2 mil. from FY 1983 no-year funds; 5.0 mil. from FY 1985 Appropriation. 5/ Figure excludes $150,000 in planned reobligation. 7/ To be determined. 8/ Does not include Peace Corps small projects to be transferred from NE Regional DA funds during the FY. 9/ No country narrative. 10/ Does not include disaster relief: FY 1984, Lebanon, $285,000; FY 1985, Lebanon $1,107,000; Italy $1,655,781. 11/ Does not include Israel. 12/ Figure includes $460,000 in reobligations. 13/ Figure includes $1,399,000 in reobligations. 14/ From 1984 Syria deobligation.

STATEMENT OF LT. GEN. PHILIP C. GAST, U.S. AIR FORCE, DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY, DEPARTMENT OF DEFENSE

General GAST. Mr. Chairman, I have also submitted a rather lengthy testimony, but I would like to make a very brief presentation, if I may, drawing on some charts.

Mr. Chairman, I am delighted to be before your committee representing the Department of Defense and wish to reassure you once again that throughout the year we worked very closely with State, AID, and other agencies to come up with an integrated budget to meet the economic, foreign policy, as well as defense needs of these countries, and to work to see to it that it enters into an overall strategy of the United States for defense.

Senator PELL. Excuse me. These look familiar. Are they the same ones as yesterday?

General GAST. Yes, sir, except the chairman was not here then, and I will focus only on this particular region.

Mr. Chairman, my presentation covers the globe, but I will put it in the context of the regions that you are examining today within this committee. And I would point out that as we work with countries we have a dual purpose. One is to contribute not only to nation-building, but to their own self-defense, so as to avoid minor conflicts and to manage them if they find themselves in that position; but also, as we look at each country, to place it in a national strategy context from both a regional as well as a global perspective, so that we can work to avoid minor conflicts, and if they happen to be prepared for them.

The charts that I will show you are all scaled relatively to financing. The hatched areas represent the growth of the programs in the period 1981 to 1984 for Egypt and Israel, as well as such countries as Jordan, Tunisia, and Morocco. The scaling is for 1984 only, and does not cover 1985.

We believe the assistance that has been provided to these countries has deterred outside forces, from attacking them, that deterrence has been maintained and peace has been preserved. We have recognized the economic problems of these countries within the region. We also believe that the assistance provided by the U.S. Government has managed conflicts or contained them in a number of particular regions. Finally, I have shown where through alliance and access for U.S. forces are secured if we should have to deploy into this vital region to protect our national interests.

The Department of Defense looks at the program in the world and this region here as protecting our national interests and enabling us to work with our friends and allies whether for NATO and U.S. defense, or in Central America, or in the Pacific Basin.

But in this particular region there are at least three strategies that overlap and intersect. That is to say, the Southwest Asia, the Middle East peace process and other factors, as well as the NATO strategies intersect here. So this region becomes very important, as has been recognized by the Congress over the previous years.

We believe that actions by the Congress and funds provided in assistance have positioned us very well.

On the other hand, the Soviets do it differently. This chart is scaled to programs from 1979 to 1983. It includes all assistance that we can report and know of. The red is military assistance, the green is economic assistance.

In this region the Soviets have been particularly active, as you can see. The red reflects sales, but sometimes they are made at very reduced prices, and they make very rapid deliveries. But the important thing to note is that wherever the Soviets are there is trouble. They are there in this particular region. This is of great concern, I know, to this committee and to many others and our friends and allies.

Senator BOSCHWITZ. What do you mean, greatly reduced prices, General?

General GAST. They sell sometimes at very concessionary rates. But more importantly, they deliver within months once they decide to move out. And they have a very straightforward and different approach than we do, in that they move out very rapidly and provide the latest equipment.

Another aspect about their support is that they have a heavy influence within the country. There are some 20,000 military advisors in all of these countries, including many in the countries that we are examining within your region today.

The total of the Soviet advisors for exceeds the total of the United States security assistance personnel worldwide. They influence them, they give them orientations, they maintain their equipment. But it is not all good, because when they leave they have left the country in bad condition to take care of the equipment themselves.

Senator BOSCHWITZ. The total in one country you say exceeds the U.S. military advisors worldwide?

General GAST. Yes, sir, in several countries on this map.

Senator BOSCHWITZ. How concessional are the terms?

General GAST. They go anywhere from 2 to 5 percent, perhaps 7 to 8 percent. They look at a country's economy somewhat and their ability to repay, but the importance of them wanting to have influence in that country overrides economic considerations. They are willing to provide equipment very quickly and very cheaply and put a lot of people in country.

For our own programs, I want to assure the committee that we work very closely with countries, cooperation within the administration is high and we work with the Congress. The entire country team is involved, including the Ambassador. We try to get a 3- to 5-year plan on their military requirements, how much they will fund nationally, how much assistance the U.S. Government could provide, before we come to Congress.

We plan what is appropriate to their needs and the threats, unlike some other countries. We attempt to tailor plans not only to meet their own defense requirements, but to suit our regional and global strategy as well. And we try to ensure that our systems are absorbable and sustainable, which has always been a distinctive mark of U.S. security assistance, unlike the Soviets and others.

And we integrate this planning within economic planning. We in Defense understand and appreciate the importance of economic factors as well as defense strategy. Therefore, with all these factors considered, we find a solid basis for financing requests in the formulation of the President's budget and its submission to the Congress.

With regard to Israel and Egypt we understand the threats and security of each country. We work closely with them and plan together, and we understand the importance of their economies, both in Egypt and Israel, if they are to have stability and growth and progress.

With both the Israelis and the Egyptians we have come to an agreement on the content of the plan that is before you in the form of a financing request. We would urge that additional funds for them not be provided above the President's request at the expense of other programs within the region and in fact on a global basis.

With regard to Turkey I know that this country is not the immediate concern of this committee, but I would only point out that, not only is Turkey important in the NATO strategy, but it is also a gateway to the Persian Gulf in many ways, particularly should we have to deploy forces, and it borders on this particular region here in the Middle East. Turkey is an important country. It intersects so many of our strategies that one cannot avoid looking at it.

Senator PELL. If the chairman would excuse me for a moment, the map reminds me of the one that I saw of a Bostonian's idea of the United States, where Boston is about one-half of it and the United States is the rest. Turkey I think is a little bit overly large in that map.

General GAST. It may be. If it is, it is only intended to show the importance of it. But the important part of showing that, sir—well, it may be a little large, but you know, it is a very large country, a very large country.

The importance of it, however, is the strategic location that it happens to be in, which is a crossroads of so many interests with other countries.

Senator BOSCHWITZ. They have lots of nice neighbors.

General GAST. Yes, they do. They are in a very uncomfortable position and a very important position. They are a friend of the United States. So many people look at them in terms of NATO only, without looking at them with regard to the south and the east questions.

Senator BOSCHWITZ. It is interesting that, with neighbors like Syria, Iraq, Iran, and the Soviet Union, their principal problem seems to be the Greeks.

General GAST. Yes, sir. Well, they recognize those problems and are very concerned about them, and so are we, as you know, Mr. Chairman.

Senator BOSCHWITZ. Yes.

General GAST. With regard to outcomes of budget requests, I know you know the contents, of the bills, but just to look at the history: The left bars show the administration's requests for these years, 1983 through 1986. The right bars show what has been provided by the Congress.

The yellow shows here when we shifted to all forgiven credits for Egypt and Israel. Israel and Egypt have taken a large portion, 45 to 50 percent of those moneys provided each year. The chart shows how we have changed from a mix of guranteed and forgiven credits to all forgiven here.

The chart also shows the increase in MAP as well as the introduction of concessional funding. The GRF will be a separate issue for discussion. The point is, the aid for Israel and Egypt has been sizable, it has been sustained, and in fact the sustainment by the U.S. Government has been sufficient throughout the years, and has in fact assisted us in providing for the security of these regions and also for the United States.

This chart, sir, tends to depict for you the mix of types of financing within the Military Assistance Program only. It is scaled to financing for 1986. It shows the large size of the request for Egypt and for Israel, $1.8 billion for Israel, $1.3 billion for Egypt.

It also points out that we have a mix for countries like Tunisia, which need economic assistance as well as concessional terms for military assistance. These are a combination of MAP and of concessional credits and treasury-rate credits, as well as for Morocco, where it is MAP and concessional. In Jordan it is a combination of concessional and treasury rate. Pakistan this year is entirely treasury rate loans. Altogether, the chart does show that the President's proposal before you recognizes the importance of not increasing debts while giving countries a capability to defend themselves.

This chart—and it is my last chart, Mr. Chairman—shows the overall economic and military programs for the world. The crosshatched section reflects what ESF for Israel would look like if it were $1.2 billion, which had not been settled before this chart was made. Economic assistance includes Public Law 480, development assistance, and ESF. The Military Assistance Program is shown in red.

And here again, on the economic/military mix chart, Israel and Egypt take up a sizable part of the budget, but so does Pakistan, recognizing its economic needs. As for Jordan, the program leans heavily on the military side, not so much on the economic. But in Lebanon we show a more balanced combination, and certainly that is the case with Tunisia and Morocco.

But Israel and Egypt take up, as I said, well over 55 percent of the combined programs.

My earlier chart showed the importance of those countries within the strategy.

That is to say, Morocco, Tunisia, and Pakistan are relevant to the Southwest Asian strategy. But also, Morocco and Tunisia are on the Mediteranean littoral, which affects NATO. So as we look at the funding request, what we need to do for these countries relates to a larger strategy.

Thank you very much, Mr. Chairman. That concludes my remarks.

[General Gast's prepared statement follows:]

STATEMENT

BEFORE THE SUBCOMMITTEE ON THE NEAR EAST AND SOUTH ASIA

THE SENATE FOREIGN RELATIONS COMMITTEE

LTG PHILIP C. GAST,

DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

MARCH 21, 1985

INTRODUCTION

THANK YOU MR. CHAIRMAN.

SECRETARY MURPHY HAS JUST PROVIDED THE SUBCOMMITTEE A DETAILED AND COMPREHENSIVE REVIEW OF THE PRESIDENT'S REQUEST FOR THE FY 1986 SECURITY ASSISTANCE PROGRAM FOR THE NEAR EAST AND SOUTH ASIA. WE IN THE DEPARTMENT OF DEFENSE FULLY SUPPORT THIS REQUEST AND BELIEVE THE OVERALL FOREIGN ASSISTANCE REQUEST REPRESENTS AN APPROPRIATE MIX OF ECONOMIC AND MILITARY ASSISTANCE FOR ACHIEVING OUR NATIONAL GOALS. I WILL CONCENTRATE MY REMARKS ON OUTLINING HOW DEFENSE BELIEVES THE REGION AND THESE PROGRAMS SUIT THE MAJOR STRATEGIC OBJECTIVES OF THE ADMINISTRATION.

STRATEGIC OBJECTIVES

SECURITY ASSISTANCE CONTRIBUTES TO OUR FOREIGN POLICY AND DEFENSE OBJECTIVES IN A NUMBER OF WAYS, SOME OBVIOUS AND SOME LESS SO. OUR PROGRAMS ARE DEVELOPED FROM A HIERARCHY OF STRATEGIC CONSIDERATIONS. WE START WITH U.S. GLOBAL STRATEGIC OBJECTIVES. FROM THESE, WE DERIVE STRATEGIC OBJECTIVES APPROPRIATE TO EACH REGION IN WHICH WE HAVE MAJOR INTERESTS. THESE REGIONAL OBJECTIVES

ARE WEIGHED TOGETHER WITH COUNTRY SPECIFIC THREATS AND MILITARY REQUIREMENTS IN ORDER TO PLAN, WITH THE COUNTRY, THE ACTUAL DETAILS OF EACH COUNTRY'S ASSISTANCE PACKAGE OR, IN THE CASE OF THOSE COUNTRIES WITH CASH, THE SALES WE MUTUALLY AGREE UPON AND THE TECHNICAL AND TRAINING ASSISTANCE REQUIRED.

THE ROLE OF SECURITY ASSISTANCE IS TO PROVIDE FRIENDLY COUNTRIES WITH THE CAPACITY TO COPE EFFECTIVELY WITH EXTERNAL AND INTERNAL THREATS. ALTHOUGH SECURITY ASSISTANCE IS ONLY ONE FACET OF THE RELATIONS WE MAINTAIN WITH COUNTRIES OR OF THE ASSISTANCE PROVIDED BY THE U.S., IT CAN BE A KEY COMPONENT FOR THOSE COUNTRIES WHOSE POLITICAL INTEGRITY IS THREATENED BY ECONOMIC INSTABILITY, SUBVERSION OR INVASION. THE ULTIMATE OBJECTIVE OF ALL U.S. ASSISTANCE PROGRAMS IS TO CREATE FRIENDLY, SELF-RELIANT NATION-STATES THAT ARE ABLE TO PROSPER AND LIVE AT PEACE WITH THEIR NEIGHBORS WHILE REQUIRING MINIMAL SUPPORT FROM THE UNITED STATES. MILITARY ASSISTANCE ALSO HELPS TO FOSTER THE ENVIRONMENT WHICH ENABLES ECONOMIC ASSISTANCE TO HAVE MAXIMUM POSITIVE IMPACT, ESPECIALLY IN THOSE REGIONS WITH A HISTORY OF CONFLICTS BETWEEN NEIGHBORING STATES.

WITHOUT SECURITY ASSISTANCE, WE WOULD NOT BE ABLE TO IMPLEMENT REGIONAL STRATEGIES INVOLVING FRIENDLY COUNTRIES AND ALLIES. I URGE YOU TO KEEP IN MIND, AS YOU REVIEW OUR PROGRAM, THAT OUR COUNTRY FUNDING PROPOSALS TEND TO SUPPORT SEVERAL DIFFERENT STRATEGIC GOALS SIMULTANEOUSLY, BECAUSE REGIONAL STRATEGIES INEVITABLY INTERSECT AND OVERLAP, ESPECIALLY IN THE MIDDLE EAST AND SOUTHWEST ASIA REGIONS. CLEARLY, SECURITY

ASSISTANCE IS INSTRUMENTAL IN SERVING OUR FOREIGN POLICY AND IS MAKING A VITAL CONTRIBUTION TO OUR NATIONAL DEFENSE AT REMARKABLY LOW COST.

STRATEGIC INTERSECTIONS

THE UNITED STATES CANNOT, BY ITSELF, PROVIDE THE MANPOWER AND THE MILITARY RESOURCES TO COVER ALL SECURITY-RELATED PROBLEMS AROUND THE WORLD. WE, THEREFORE, HAVE PURSUED REGIONAL STRATEGIES THAT COMBINE SECURITY AND ECONOMIC ASSISTANCE PROGRAMS WITH IMPROVEMENTS IN UNITED STATES DEFENSE CAPABILITIES AND SUPPORT FOR OUR ALLIANCE COMMITMENTS. WHERE TWO OR MORE REGIONAL STRATEGIES INTERSECT OR CONTRIBUTE TO THE STRATEGIC DEFENSE OF THE U.S., OUR SECURITY AND ECONOMIC ASSISTANCE PROGRAMS TAKE ON ADDED IMPORTANCE.

FOR INSTANCE, OUR STRATEGY IN THE PACIFIC BASIN CONTRIBUTES DIRECTLY TO THE DEFENSE OF THE UNITED STATES BY HELPING KOREA, THAILAND AND THE PHILIPPINES COPE WITH ON-GOING CONFLICTS OR THREATS. THE FINANCING PROGRAM WITH THE PHILIPPINES IS ESPECIALLY IMPORTANT BECAUSE OUR BASES THERE SUPPORT UNITED STATES PRESENCE THROUGHOUT THE REGION AND BECAUSE THE INTERNAL TURMOIL HAS WORSENED. WE WOULD FIND IT VERY DIFFICULT TO REPLACE THESE CRITICAL BASES WITH COMPARABLE CAPABILITIES.

IN NATO, OUR FINANCING PROGRAMS WITH THE FOUR SOUTHERN TIER COUNTRIES - SPAIN, PORTUGAL, GREECE AND TURKEY - HELP STRENGTHEN WESTERN DEFENSES AMONG OUR HISTORIC ALLIES. TURKEY'S CRITICAL LOCATION PLACES IT AT THE NEXUS OF OUR SECURITY INTERESTS IN NATO, THE MIDDLE EAST AND SOUTHWEST ASIA. BUT IT MUST MODERNIZE ITS OBSOLESCENT MILITARY EQUIPMENT IF IT IS TO MEET ITS AGREED-UPON NATO FORCE GOALS.

OUR PROGRAMS IN THE WESTERN HEMISPHERE ARE EXTREMELY IMPORTANT. THEY ENABLE US TO HELP COUNTRIES, LIKE THOSE IN THE ANDINE REGION OF SOUTH AMERICA, MAINTAIN THEIR DEMOCRATIC SYSTEMS, DEFEND AGAINST INSURGENCIES AND SUPPRESS NARCOTICS CULTIVATION AND TRAFFICKING. WE ARE REQUESTING INCREASED ECONOMIC AND SECURITY ASSISTANCE TO THE FOUR COUNTRIES IN THE REGION, PARTICULARLY PERU, AND ASK FOR CONGRESSIONAL SUPPORT FOR THIS INITIATIVE.

ELSEWHERE, WE WILL SHORTLY BE WITHDRAWING THE UNITED STATES SUPPORT ELEMENT FROM GRENADA AND WILL BE LEAVING BEHIND A FREE AND VIABLE DEMOCRACY. WE WISH TO WORK CLOSELY WITH GRENADA AND THE OTHER EASTERN CARIBBEAN DEMOCRACIES TO BUILD UP THEIR OWN DEFENSE CAPABILITIES SO THAT THE FUTURE INVOLVEMENT OF U.S. MILITARY FORCES WILL NOT BE NECESSARY.

GEOGRAPHICALLY CLOSER TO HOME THAN MANY OF THE STATES IN OUR OWN REPUBLIC, IS CENTRAL AMERICA. IT REMAINS OUR PRIORITY STRATEGIC CONCERN WITHIN THE HEMISPHERE. HERE, OUR STRATEGY FOR ASSISTANCE IN THE REGION INTERACTS WITH THE STRATEGY OF CONUS

DEFENSE, PROTECTING OUR SEA LANES FOR THE DEFENSE OF EUROPE, AND THE IMPORTANT USE OF THE STRATEGIC PANAMA CANAL. SOVIET SUPPORTED CUBAN AND NICARAGUAN ACTIONS ARE OUR CONCERN. OUR ASSISTANCE IN THE REGION NOT ONLY HELPS OUR FRIENDS TO DEVELOP BUT IT ALSO COUNTERS THE SOVIET, CUBAN AND NICARAGUAN DRIVE TO FOSTER INSTABILITY IN THESE COUNTRIES AND THREATEN OUR NATIONAL INTERESTS.

WE ARE HERE TODAY TO ADDRESS THE MIDDLE EAST AND SOUTHWEST ASIA, BOTH CRUCIAL REGIONS TO OUR FOREIGN POLICY AND DEFENSE STRATEGY. WHEN CONSIDERED TOGETHER THEY TAKE ON ADDED IMPORTANCE. FINANCING AND CASH SALES PROGRAMS HAVE HELPED REGIONAL STATES CONTAIN THE IRAN-IRAQ WAR IN THE GULF, ENCOURAGED THE SEARCH FOR A POSITIVE PEACE BETWEEN ISRAEL AND ITS NEIGHBORS AND HELPED INSURE THE UNIMPEDED FLOW OF CRITICAL RESOURCES TO THE WEST. THE PROGRAMS ALSO HAVE HELPED SECURE UNITED STATES ACCESS AND POWER PROJEC-TION ASSETS NECESSARY TO HELP DETER AGGRESSION AND PROTECT CRITICAL SEA LANES.

SOVIET FOREIGN ASSISTANCE

OVER THE PAST TWO DECADES, THE SOVIET UNION HAS INCREASED ITS MILITARY ASSISTANCE AND ARMS SALES TIES TO SEVERAL THIRD WORLD COUNTRIES JUST AS IT HAS CONTINUED ITS MILITARY BUILDUP. THE SOVIETS EFFORTS IN THE MIDDLE EAST AND SWA ARE PARTICULARLY DISTRUBING. UNLIKE OUR ASSISTANCE, WHICH HAS RETAINED A 60:40 RATIO IN FAVOR OF ECONOMIC ASSISTANCE FOR THE LAST SEVERAL YEARS, SOVIET AID IS HEAVILY WEIGHTED TOWARD THE MILITARY SIDE. WITH VERY FEW EXCEPTIONS - CUBA, FOR EXAMPLE - THE SOVIET UNION DOES

NOT CONTRIBUTE MUCH TO ECONOMIC IMPROVEMENTS IN THE THIRD WORLD. THIS DECIDED EMPHASIS ON MILITARY AID - MORE THAN $90 BILLION WORTH OF ARMS DELIVERIES SINCE THE MID-1950'S - REFLECTS SOVIET PRIORITIES INTERNAL TO THE SOVIET UNION ITSELF, PRIORITIES THAT RELEGATE HUMAN NEEDS TO MILITARY GROWTH AND EXPANSION AND REFLECT THE SOVIETS' FAILURES IN INTERNAL ECONOMIC DEVELOPMENT.

THE SOVIETS PROVIDED THEIR MILITARY SALES AND ASSISTANCE TO A NUMBER OF TROUBLEMAKERS - LIBYA, VIETNAM, NORTH KOREA, CUBA, AND NICARAGUA - OFTEN AT FAVORABLE PRICES AND WITH SHORT DELIVERY LEAD TIMES. THEY HAVE INTERVENED IN AFGHANISTAN WHERE THEY PROP UP A PUPPET GOVERNMENT DESPISED BY MOST OF ITS PEOPLE. OBVIOUSLY, THEY PREFER TO USE THEIR MILITARY PRODUCTION AND LOGISTICS SYSTEM TO CREATE AND EXPLOIT VULNERABILITIES AROUND THE WORLD. EITHER THROUGH DIRECT INTERVENTION OR THROUGH MAJOR RECIPIENTS OF SOVIET ASSISTANCE WHO USE SOVIET ARMS AND ADVISORS TO HEIGHTEN REGIONAL TENSIONS AND EXPLOIT INSTABILITIES IN THEIR REGIONS, WE FIND A STRONG CORRELATION BETWEEN SOVIET ARMS SALES AND MAJOR TROUBLE SPOTS AROUND THE WORLD.

THROUGH THESE ASSISTANCE PROGRAMS, THE SOVIETS ARE ABLE TO STATION NEARLY TWENTY THOUSAND MILITARY ADVISORS ABROAD. YET THEY STILL PREFER TO DO MUCH OF THE REPAIR AND MAINTENANCE WORK THEMSELVES IN ORDER TO CREATE A DEPENDENCY RELATIONSHIP. THEY ALSO GIVE HEAVY DOSES OF PROPAGANDA IN THEIR TRAINING PROGRAMS.

THERE IS NO QUESTION THAT THE CONFLICTS CHARACTERIZING THE NEAR EAST HAVE BEEN AGGRAVATED BY THE ACQUISITION OF SOVIET MILITARY EQUIPMENT BY SEVERAL STATES IN THE REGION.

PROGRAM PLANNING

IN THE BROADEST SENSE, OUR SECURITY ASSISTANCE PLANNING SUPPORTS BASIC U.S. FOREIGN POLICY GOALS BY TAKING INTO ACCOUNT THE WELL-KNOWN INTERDEPENDENCE BETWEEN PHYSICAL AND ECONOMIC SECURITY. POLITICAL STABILITY IS AS THREATENED BY ECONOMIC INSTABILITY AS IT IS BY EXTERNALLY INSPIRED POLITICAL DESTABILIZATION. CONSEQUENTLY, SECURITY ASSISTANCE PLANNING PLACES AS MUCH EMPHASIS ON THE BALANCE BETWEEN ECONOMIC AND MILITARY ASSISTANCE AND THE IMPACT OF FUTURE DEBT BURDENS AS IT DOES ON THE EFFECT OF FORCE STRUCTURE MODERNIZATION IN DETERRING THREATS. MOREOVER, WE USE THE METICULOUSNESS OF THE PLANNING PROCESS AND THE EXPERIENCE OF OUR SECURITY ASSISTANCE STAFFS TO ENSURE THAT OUR COUNTRY PROPOSALS DO NOT CONTAIN UNNECESSARY EXTRAS AND ARE TAILORED TO FULFILL THOROUGHLY-REVIEWED COUNTRY REQUIREMENTS.

IN THE COURSE OF PURSUING OUR OBJECTIVES IN OUR RELATIONSHIPS WITH COUNTRIES WITH WHOM WE HAVE SECURITY ASSISTANCE PROGRAMS, ESPECIALLY THOSE WHERE WE PROVIDE FINANCING, WE WORK DILIGENTLY WITH THE COUNTRY TO ENSURE THAT THEY BUY WHAT THEY NEED, THAT IT CAN BE EFFECTIVELY OPERATED AND MAINTAINED WITHIN THEIR RESOURCES AND SKILLS, THAT IT CONTRIBUTES SIGNIFICANTLY TO

THEIR DEFENSE, AND MAKES A CONTRIBUTION TO COALITION DEFENSE WHERE POSSIBLE. OUR EMBASSIES, SECURITY ASSISTANCE OFFICES, UNIFIED COMMAND STAFFS AND WASHINGTON AGENCIES ARE ALL DEEPLY ENGAGED IN THIS PROCESS. WE WORK WITH COUNTRIES TO ENSURE THEY RECOGNIZE THE NEED FOR BALANCED PROGRAMS APPROPRIATE TO THE THREATS THEY FACE, PROGRAMS THAT INCLUDE THE TRAINING AND LOGISTICS SUPPORT THEY NEED TO MAKE AND KEEP THEIR FORCES EFFECTIVE. OUR EXPERIENCE HAS SHOWN THAT MOST COUNTRIES DO NOT MAKE EXORBITANT REQUESTS OR UNREASONABLE DEMANDS ON THE U.S. THEY ARE SENSITIVE TO THEIR ABILITY TO ABSORB NEW EQUIPMENT. ALMOST ALL ARE AWARE OF THEIR FINANCIAL LIMITATIONS.

CONSIDERABLE PLANNING IS DEVOTED TO INTEGRATING SECURITY ASSISTANCE WITH ECONOMIC DEVELOPMENT AND OTHER PROGRAMS BY TAILORING APPROPRIATE LEVELS TO SPECIFIC COUNTRY REQUIREMENTS. CONGRESS HAS SUPPORTED MAKING GREAT STRIDES IN REDUCING THE FUTURE REPAYMENT BURDENS OF THE POORER COUNTRIES. OUR MILITARY FINANCING ASSISTANCE IS ONLY A SMALL PORTION OF THE TOTAL DEBT BURDENS FOR MOST OF THESE COUNTRIES EXCEPT ISRAEL AND EGYPT. WE OFTEN CONDUCT PERIODIC PROGRAM REVIEWS, MEETING ALTERNATELY IN THE COUNTRY AND IN THE U.S. WE HAVE INCREASED AND INTENSIFIED THESE PLANNING EFFORTS WITH CRITICAL COUNTRIES OVER THE LAST TWO OR THREE YEARS, AND BELIEVE THAT THE FINANCING PROGRAMS WE HAVE PRESENTED IN THE FY 1986 BUDGET REQUEST ARE FIRMLY GROUNDED IN SENSIBLE MILITARY PROGRAMS.

THE FY 1986 REQUEST

THE OVERALL FY 1986 SECURITY ASSISTANCE REQUEST CONTINUES PREVIOUS YEAR PROGRAMS WITH NO MAJOR COUNTRY INCREASES, APART FROM ISRAEL AND EGYPT. IT REFLECTS OUR EFFORTS TO SUPPORT U.S. STRATEGIC INTERESTS AND TO BE RESPONSIVE TO EACH COUNTRY'S MILITARY AND ECONOMIC REQUIREMENTS THROUGH OUR MIX OF MILITARY AND ECONOMIC FINANCING AND THROUGH OUR MIX OF TREASURY RATE CREDITS, CONCESSIONAL CREDITS, AND MAP GRANTS.

FMS/MAP ASSISTANCE. IN LOOKING AT OUR OVERALL FY 1986 MILITARY ASSISTANCE FINANCING REQUEST, THE LARGEST SHARE, ABOUT 46%, GOES TO EGYPT AND ISRAEL. THIS REFLECTS THE PRIORITY THAT WE PLACE ON FACILITATING THE MIDDLE EAST PEACE PROCESS AND ON SUPPORTING OUR STRONG MIDDLE EAST ALLY, ISRAEL. OVERALL, THE NEAR EAST AND SOUTH ASIA - FROM MOROCCO TO PAKISTAN - TAKES 55% OF THE FINANCING.

THE NEXT LARGEST SHARE, ABOUT 29% GOES TO THE FIVE STRATEGIC BASE RIGHTS COUNTRIES, PORTUGAL, SPAIN, GREECE, TURKEY, AND THE PHILIPPINES WHICH ENHANCES OUR CAPABILITY TO PROJECT FORCES AND OUR ABILITY TO SUSTAIN THOSE FORCES THROUGH THE USE OF AIR AND PORT FACILITIES. ANOTHER 5% GOES TO THE FRONTLINE STATES OF KOREA AND THAILAND.

FINALLY, OF THE REMAINING REGIONAL MILITARY ASSISTANCE, 5.3% GOES TO LATIN AMERICA AND THE CARIBBEAN, WHILE AFRICA RECEIVES ONLY 3.3%.

MILITARY AND ECONOMIC ASSISTANCE. ALTHOUGH FMS/MAP FINANCING IS FOCUSED ON ISRAEL AND EGYPT AND, TO A LESSER DEGREE, ON OUR ALLIES IN THE SOUTHERN TIER OF NATO, WE BELIEVE THAT THE FY 1986 REQUEST REPRESENTS A JUDICIOUS MIX OF MILITARY AND ECONOMIC FINANCING OF ALL PROGRAMS. AS MENTIONED EARLIER, GREAT CARE HAS BEEN TAKEN TO INTEGRATE ECONOMIC DEVELOPMENTAL AND MILITARY ASSISTANCE IN DEVELOPING THE OVERALL COUNTRY PROGRAM REQUESTS. WE FIND THAT FOR MOST COUNTRIES, MILITARY ASSISTANCE FINANCING PRIMARILY SUPPORTS EXISTING SYSTEMS, OPERATION AND MAINTENANCE REQUIREMENTS, INFRASTRUCTURE IMPROVEMENTS OR TRAINING, WITH VERY LIMITED MODERNIZATION OF EQUIPMENT. IN SOME INSTANCES, FUNDING MAY DO MUCH TO PROFESSIONALIZE A NATIONAL MILITARY FORCE.

COUNTRY-BY-COUNTRY, OUR PROGRAMS ARE WELL-BALANCED BETWEEN MILITARY AND ECONOMIC AID AND WITH MOST OF THE LESS PROSPEROUS COUNTRIES RECEIVING A MUCH HIGHER PROPORTION OF ECONOMIC THAN MILITARY ASSISTANCE, ESPECIALLY IN LATIN AMERICA AND AFRICA. FOR THE BASE RIGHTS COUNTRIES, THE FRONTLINE STATES AND EGYPT AND ISRAEL, THE OVERALL BALANCE BETWEEN MILITARY AND ECONOMIC ASSISTANCE IS ABOUT 3:1.

NEAR EAST AND SOUTH ASIA

TURNING NOW TO THE REGION WHICH IS THE RESPONSIBILITY OF THIS SUBCOMMITTEE, I WOULD LIKE TO BRIEFLY REVIEW EACH OF THE COUNTRY SECURITY ASSISTANCE PROGRAMS. I SHOULD NOTE THE HIGH DIVERSITY OF NAMES WE GIVE TO THE REGION. "NEAR EAST AND SOUTH ASIA" IS THE

AREA FROM MOROCCO TO BANGLADESH THAT THE DEPARTMENT OF STATE HAS TRADITIONALLY SO DENOMINATED. WITHIN THAT AREA, WE OFTEN SPEAK OF THE MIDDLE EAST - WHICH FOR BETTER OR WORSE HAS COME TO MEAN THAT AREA CONTAINING ISRAEL AND ITS NEIGHBORS. WE OFTEN REFER TO "THE MIDDLE EAST PEACE PROCESS." WE ALSO SPEAK OF "SOUTH WEST ASIA," WHICH IS SOMEHOW DISJOINED BUT OVERLAPS WITH "THE MIDDLE EAST." SOUTH WEST ASIA, OR SWA IN PENTAGON PARLANCE, IS THAT AREA SURROUNDING THE PERSIAN GULF WHICH TOOK ON RENEWED STRATEGIC INTEREST AFTER THE REVOLUTION IN IRAN AND THE OUTBREAK OF THE IRAN-IRAQ WAR. WE HAVE SET THAT AREA AND ITS SURROUNDINGS ASIDE AS THE AREA OF RESPONSIBILITY (AOR) OF U.S. CENTRAL COMMAND. THAT AOR ALSO INCLUDES THE AFRICAN STATES OF SUDAN, SOMALIA, DJIBOUTI, AND KENYA WHICH ARE NOT THE RESPONSIBILITY OF THIS SUBCOMMITTEE. FINALLY, THERE IS NORTH AFRICA AND ITS COLLECTION OF ARAB STATES, AMONG WHICH IS LIBYA AS A SOURCE OF TROUBLE-MAKING.

FOR THIS SUBCOMMITTEE, I WOULD LIKE PARTICULARLY TO REVIEW THE COUNTRIES WITH WHOM WE HAVE REQUESTED MILITARY ASSISTANCE GRANT OR CREDIT FINANCING, STARTING WITH MOROCCO ON THE ATLANTIC, AND MOVING ACROSS THE REGION TO PAKISTAN. OUR PROGRAMS THROUGHOUT THE AREA HAVE BEEN VITAL FOR PRESERVING THE PEACE AND CONTAINING CONFLICTS. THE PROGRAMS HAVE ALSO ASSISTED US IN GAINING ACCESS TO FACILITIES FOR U.S. FORCES SO THAT THEY CAN ASSIST ON A EXPEDITIOUS BASIS IN AN EMERGENCY.

MOROCCO

OUR SECURITY RELATIONSHIP WITH MOROCCO IS BASED ON A LONG TRADITION OF MUTUAL RESPECT AND SHARED FOREIGN POLICY INTERESTS. DESPITE CURRENTLY DIFFERING VIEWS ON HOW TO DEAL WITH LIBYA, THIS RELATIONSHIP REMAINS STRONG AND MUTUALLY BENEFICIAL. WE HAVE ASSISTED MOROCCO TO COPE WITH THE POLISARIO WHICH IS EQUIPPED WITH MATERIAL OF SOVIET ORIGIN. THE U.S. AND MOROCCO HAVE ALSO PARTICIPATED IN JOINT MILITARY EXERCISES AND TRAINING PROGRAMS. MOROCCO HAS FORMALLY SIGNED AN ACCESS AND TRANSIT AGREEMENT TO ASSIST DEPLOYMENT OF U.S. FORCES IN CERTAIN GULF CONTINGENCIES.

OUR AIM IS TO MAINTAIN AND IMPROVE MOROCCO'S SECURITY AND STABILITY THROUGH MODEST LEVELS OF SECURITY ASSISTANCE. SECURITY ASSISTANCE ALSO PLAYS A ROLE IN MAINTAINING AN ENVIRONMENT CONDUCIVE TO ENCOURAGING A NEGOTIATED SETTLEMENT TO THE WESTERN SAHARA DISPUTE.

BECAUSE OF OUR DESIRE NOT TO ADD MAJOR BURDENS TO MOROCCO'S EXTERNAL DEBT, OUR FMS BUDGET REQUEST IS MOSTLY GRANT ASSISTANCE, $45 MILLION, WITH AN ADDITIONAL $5 MILLION CREDITS AT CONCESSIONAL RATES. IN ADDITION, WE ARE REQUESTING ESF OF $22.5 MILLION. THE REQUEST FOR FY 1986 IS THE LOWEST MINIMUM LEVEL REQUIRED TO SUSTAIN MOROCCO'S CURRENT INVENTORY OF U.S. EQUIPMENT SUPPLIED UNDER EARLIER PROGRAMS.

TUNISIA

THE U.S. AND TUNISIA HAVE ENJOYED GOOD RELATIONS SINCE TUNISIAN INDEPENDENCE IN 1956. TUNISIA IS VULNERABLE TO LIBYAN

ADVENTURISM AND QADHAFI'S TERRITORIAL AMBITIONS. THE U.S. HAS ASSISTED TUNISIA'S MODEST MILITARY MODERNIZATION EFFORTS AND IMPROVED TUNISIA'S DEFENSE CAPABILITIES IN THE PAST YEAR WITH THE DELIVERY OF F-5 FIGHTER AIRCRAFT AND M-60A3 TANKS. OUR AIM IS TO HELP BUILD TUNISIAN CONFIDENCE IN CONFRONTING LIBYAN THREATS AND PRESSURES. THE FY 1986 MILITARY ASSISTANCE FINANCING CONSISTS OF $16 MILLION IN MAP GRANTS, $27 MILLION IN CONCESSIONAL CREDITS, AND $26 MILLION IN TREASURY RATE CREDITS, FOR A TOTAL PROGRAM OF $69 MILLION. THIS MIX PLUS $22.5 MILLION IN ESF RESPONDS TO THE TIGHTENED ECONOMIC CIRCUMSTANCES IN WHICH TUNISIA FINDS ITSELF. THE MILITARY ASSISTANCE WILL PRIMARILY BE USED AS PAYMENT FOR THE CURRENT PROGRAM.

EGYPT

THE PROPOSED FMS CREDITS ARE DESIGNED TO MEET ESSENTIAL EGYPTIAN MILITARY MATERIAL AND TRAINING NEEDS AS DETERMINED UNDER THE FIVE-YEAR PROGRAM JOINTLY AGREED UPON. MOST OF THE REQUEST WILL GO TO ONGOING PROGRAMS, SUCH AS THE F-16 AND E-2C AIRCRAFT, AND FOLLOW-ON SUPPORT FOR U.S. WEAPONS SYSTEMS ALREADY PROVIDED. AS THEIR PREVIOUSLY SUPPLIED SOVIET EQUIPMENT BECOMES MORE OBSOLETE OR INOPERABLE, THE EGYPTIANS HAVE BEGUN TO REPLACE IT WITH WESTERN SYSTEMS. REPLACEMENT IS NOT OCCURRING ON A ONE-FOR-ONE BASIS, HOWEVER, THE WESTERN SYSTEMS BEING INTRODUCED ARE QUALITATIVELY BETTER THAN THEIR SOVIET PREDECESSORS.

THE EGYPTIANS SHARE WITH US A DEEP CONCERN ABOUT THE GROWTH OF SOVIET PRESENCE AND INFLUENCE IN THE AREA. LIBYA POSES A

SERIOUS THREAT TO EGYPT. THEY HAVE ACQUIRED A LARGE AMOUNT OF EQUIPMENT FROM THE SOVIETS, AND THEIR PROPENSITIES FOR TERRORISM AND FOR MILITARY OPERATIONS (AS IN CHAD) ARE CLEAR. EGYPT HAS ALSO PARTICIPATED WITH US IN A NUMBER OF JOINT MILITARY TRAINING EXERCISES WHICH BENEFITED THE MILITARY TRAINING IN BOTH COUNTRIES. COOPERATION BETWEEN U.S., EUROPEAN AND EGYPTIAN FORCES WAS HIGHLY SUCCESSBUL DURING THE RECENT COOPERATIVE RED SEA-GULF OF SUEZ MINE CLEARING OPERATION.

ISRAEL

THE MAJOR RECIPIENT OF OUR FMS AID IN THE REGION IS ISRAEL. MAINTAINING ISRAEL'S MILITARY CAPABILITY - ITS QUALITATIVE EDGE OVER ALL VIABLE THREATS - IS MUTUALLY IMPORTANT FOR ISRAEL'S INTERNAL STABILITY AND FOR CONTINUED PROGRESS TOWARDS PEACE IN THE REGION. THE 1986 RECOMMENDED LEVEL OF $1.8 BILLION - UP $400 MILLION FROM 1985 - AND AGAIN ALL FORGIVEN CREDITS - WILL MEET THEIR REQUIREMENTS.

AS YOU KNOW, WE HAVE MET WITH ISRAELI MINISTRY OF DEFENSE OFFICIALS ON THE THREAT, NEW EQUIPMENT AND PROGRAMS TO MEET THE THREAT, AND FMS AND LEVELS REQUIRED. WE HAVE AGREED TO THE PROGRAM. MOST OF THE FY 1986 MONIES WILL GO TOWARD MEETING EXISTING OBLIGATIONS IN ONGOING PROGRAMS SUCH AS THE PURCHASE OF F-16 AND F-15 AIRCRAFT BUT THERE WILL BE ADDITIONAL PROGRAMS AS WELL, TO MAINTAIN THE QUALITATIVE SUPERIORITY. HOWEVER, THE $250 MILLION DESIGNATED BY THEM FOR THE LAVI FIGHTER AIRCRAFT PROGRAM, AND FOLLOW-ON SUPPORT OF CURRENTLY POSSESSED EQUIPMENT, WILL TAKE ABOUT 25% OF THE $1.8 BILLION.

LEBANON

THE LEVEL OF OUR DEFENSE RELATIONSHIP WITH LEBANON REFLECTS THE UNSETTLED SITUATION IN THAT TROUBLED COUNTRY. OUR MODEST SECURITY ASSISTANCE PROGRAM WITH THE LEBANESE ARMED FORCES (LAF) CONTINUES A TRADITION OF U.S.-LEBANESE COOPERATION AND PROVIDES A MILITARY LINK TO THE LEBANESE GOVERNMENT. WHILE NO ONE CAN PREDICT THE FUTURE IN LEBANON, WE BELIEVE THAT MAINTAINING A MINIMAL SECURITY ASSISTANCE PROGRAM IS HELPFUL TO AMERICAN INTERESTS AT THE PRESENT TIME. FOR THIS REASON, WE HAVE SET ASIDE $10 MILLION IN TREASURY RATE CREDITS.

JORDAN

THE UNITED STATES HAS BEEN INVOLVED IN ASSISTING IN THE DEFENSE OF JORDAN SINCE 1958. THROUGH THE DECADE OF THE 70'S U.S. MILITARY ASSISTANCE UPGRADED JORDANIAN CAPABILITIES BY PROVIDING STATIC I-HAWK, F-5E'S, VULCAN ANTI-AIRCRAFT GUNS, REDEYE MISSILES, AND M60A3 TANKS. OVER THE YEARS A CLOSE MILITARY-TO-MILITARY RELATIONSHIP HAS EVOLVED BETWEEN THE U.S. AND JORDAN, AND U.S. MILITARY PERSONNEL WHO HAVE DEALT WITH THE JORDANIAN ARMED FORCES HAVE BEEN HIGHLY IMPRESSED BY THE EFFICIENCY, PROFESSIONALISM, AND LOYALTY OF THAT ORGANIZATION. JORDAN'S ABILITY TO CONTINUE TO PLAY A LEADING AND CONSTRUCTIVE ROLE IN THE ARAB WORLD COULD BE LIMITED BY A PERCEIVED UNWILLINGNESS ON THE PART OF THE U.S. TO ASSIST IN MEETING JORDAN'S LEGITIMATE DEFENSE NEEDS, ESPECIALLY SINCE THEY FACE A SEVERE THREAT FROM SYRIA.

THE $95 MILLION IN FMS CREDITS WE ARE ASKING FOR THIS YEAR - $65 MILLION IN CONCESSIONAL CREDITS, AND $30 MILLION IN TREASURY RATE CREDITS - WILL BE USED TO SUSTAIN THE EQUIPMENT PREVIOUSLY SOLD TO THEM BY THE U.S., TO CONTINUE THE INTEGRATION OF THE COBRA ATTACK HELICOPTER, AND TO BUY ADDITIONAL EQUIPMENT LIKE VEHICLES AND COMMUNICATIONS.

YEMEN ARAB REPUBLIC

IT IS VERY IMPORTANT THAT WE CONTINUE THE SMALL SUPPORT PROGRAM WITH THE GOVERNMENT OF YEMEN AND ITS MILITARY. OUR PROGRAMS HAVE CONTRIBUTED SUBSTANTIALLY TO THE SUCCESSFUL STRUGGLE OF THE YAR GOVERNMENT AGAINST THE SOUTH YEMEN-BACKED INSURGENTS AND THUS PROTECT THE BACK DOOR TO SAUDI ARABIA. THEY CONTINUE TO SEEK ALTERNATIVES TO THEIR PREVIOUS RELIANCE FOR EQUIPMENT ON THE SOVIET UNION. THE SMALL NUMBER OF PROGRAMS WE HAVE ARE VERY VISIBLE AND HIGHLY EFFECTIVE. THE F-5 SQUADRON IS CONSIDERED THE ELITE UNIT OF THE AIR FORCE, AND THE IMET-SUPPORTED ENGLISH LANGUAGE TRAINING FACILITY REMAINS IN HIGH DEMAND. THE $6 MILLION IN MAP GRANTS WE ARE REQUESTING WOULD PROVIDE FOR LIMITED REPLACEMENTS, SPARE PARTS, AND MOBILE TRAINING TEAMS FROM THE U.S.

OMAN

SECURITY COOPERATION WITH OMAN IS CRITICAL TO THE IMPLEMENTATION OF OUR SOUTHWEST ASIA STRATEGY. THE PRIMARY THREAT WHICH

OMAN FACES IS FROM IRAN AND IS CENTERED ON THE RELATIVE VULNERABILITY OF OMANI AIRSPACE AND THE THREAT TO SHIPPING IN THE STRAIT OF HORMUZ. ALL INTERNATIONAL SHIPPING CURRENTLY MOVES THROUGH TRAFFIC LANES WHICH LIE INSIDE OMANI CLAIMED TERRITORIAL WATERS. IRAN HAS THREATENED IN THE PAST TO INTERDICT SHIPPING IN THE STRAIT AND ALTHOUGH THEY HAVE NOT YET ATTEMPTED TO DO SO, THE POSSIBILITY THAT THEY MAY - ESPECIALLY IF THEIR OIL SALES ARE SERIOUSLY IMPEDED BY IRAQ - IS SIGNIFICANT. PREVIOUS REQUESTS FROM OMAN FOR SECURITY ASSISTANCE HAVE BEEN MINIMAL IN TERMS OF THE IMPORTANCE OF OMAN TO OUR OVERALL INTERESTS IN THE REGION, THE VALUE OF OUR BILATERAL SECURITY RELATIONSHIP, AND OMAN'S CONTINUED SUPPORT FOR OUR MIDDLE EAST POLICIES, INCLUDING THE CAMP DAVID ACCORDS. HOWEVER, IN LIGHT OF THE INCREASED THREAT FROM IRAN, THE GOVERNMENT OF OMAN HAS EMBARKED ON AN EXPANDED MILITARY PROCUREMENT PROGRAM. BECAUSE THE PRIMARY THREAT TO OMAN IS FROM THE AIR, WE WANT TO CONCENTRATE OUR EFFORTS ON HELPING THEM TO DEVELOP A VIABLE AIR DEFENSE CAPABILITY. FOR THIS REASON, WE BELIEVE IT IS ESSENTIAL TO PROVIDE A MODEST INCREASE IN FY 1986 FMS CREDITS FROM $40 MILLION TO $58.3 MILLION - ALL IN TREASURY RATE CREDITS - TO ASSIST OMAN IN ITS PURCHASE OF WEAPONS CRITICAL TO ITS DEFENSE AND TO THE DEFENSE OF OUR SHARED VITAL INTERESTS.

PAKISTAN

AS YOU ARE WELL AWARE, THE ADMINISTRATION IN 1981 AGREED TO PLEDGE ITS BEST EFFORTS FOR A $3.2 BILLION PROGRAM OF MILITARY AND

ECONOMIC SUPPORT FOR PAKISTAN. WITHOUT QUESTION, OUR STEADFAST COMMITMENT TO THIS PROGRAM HAS BEEN OF INESTIMABLE VALUE IN FORGING A CONSTRUCTIVE COOPERATIVE RELATIONSHIP, STRENGTHENING THEIR SECURITY AGAINST THE THREAT POSED BY THE SOVIET AGGRESSOR IN AFGHANISTAN, AND CONFERRING A GREATER MEASURE OF STABILITY ON THE AREA.

THE SOVIET FORCES ARE NOW IN THEIR SIXTH YEAR OF ATTEMPTED SUBJUGATION OF AFGHANISTAN. THEIR CRUEL CAMPAIGN HAS NEITHER BROKEN THE SPIRIT NOR THE EFFECTIVENESS OF THE AFGHAN RESISTANCE, NOR HAVE THE SOVIETS BEEN SUCCESSFUL IN INTIMIDATING PAKISTAN TO ABANDON ITS RESOLUTE CALL FOR THE WITHDRAWAL OF SOVIET TROOPS, THE RESTORATION OF AFGHANISTAN'S SOVEREIGNTY, AND THE SAFE, HONORABLE RETURN OF ALMOST 3 MILLION AFGHANS WHO HAVE SOUGHT REFUGE IN PAKISTAN. THE PATTERN OF OCCASIONAL, CROSS-BORDER ATTACKS AND FREQUENT VIOLATIONS OF PAKISTAN'S AIRSPACE BY SOVIET/AFGHAN AIRCRAFT CONTINUES. THE REQUESTED $325 MILLION IN FMS CREDITS AND $1.2 MILLION IMET ENABLES US TO CONTINUE PROGRAMS PREVIOUSLY AGREED UPON.

THE GULF COOPERATION COUNCIL (GCC)

WHILE WE DO NOT EXTEND MILITARY ASSISTANCE FINANCING TO THE WEALTHIER STATES OF THE REGION - SAUDI ARABIA, KUWAIT, BAHRAIN, QATAR, AND UAE - WE DO HAVE SIGNIFICANT CASH PROGRAMS WITH THEM OF GREAT STRATEGIC IMPORTANCE. THESE PROGRAMS HELP THE COUNTRIES TO DEFEND THEMSELVES AND PERMIT US TO DEVELOP MILITARY-TO-MILITARY

RELATIONS THAT FURTHER THE BONDS OF FRIENDSHIP AND COOPERATION WITH THESE COUNTRIES. AN ESPECIALLY IMPORTANT ELEMENT OF REGIONAL SECURITY IS INTEGRATED AIR DEFENSES. THIS NEED HAS BEEN PROVEN AT THE BEGINNING AND DURING THE COURSE OF THE IRAN-IRAQ WAR, AND WOULD BE IMPORTANT IN ANY LARGER CONFLICT. WE HAVE ENCOURAGED THE COUNTRIES (PLUS OMAN) TO DEVELOP THEIR AIR DEFENSES, AND WE ARE PROVIDING SPECIFIC ASSISTANCE WHERE REQUESTED. WE FEEL OUR CONTINUING COOPERATION WITH THESE COUNTRIES CAN HAVE SUBSTANTIAL PAYOFFS FOR OUR OWN STRATEGIC INTERESTS AND POSTURE.

CONCLUDING REMARKS

MR. CHAIRMAN, LET ME CONCLUDE BY OBSERVING THAT ASIDE FROM THE OBVIOUS RESOURCE IMPORTANCE OF THE REGION, IT IS ALSO THE CENTER OF ISLAMIC CIVILIZATION, IT WESTERN REACHES FACE THE SOVIET FLANK OF NATO AND IT STANDS ASTRIDE THE LAND BRIDGE BETWEEN AFRICA AND ASIA. CLEARLY, THIS REGION IS OF OVERRIDDING GEOPOLITICAL IMPORTANCE TO THE WESTERN ALLIANCE. THE PURPOSE OF AMERICAN MILITARY ASSISTANCE IN THIS CONTEXT, IS TO SECURE THE SUPPORT OF PRO-WESTERN GOVERNMENTS IN THE REGION, TO ASSURE AMERICAN ACCESS TO VITAL RESOURCES, TO PREVENT FURTHER ENCROACHMENTS INTO THE REGION BY THE SOVIETS, TO GUARD NATO'S MEDITERRANEAN FLANK AND TO PROMOTE A PEACEFUL RESOLUTION OF THE ARAB-ISRAELI CONFLICT. WE BELIEVE THE MILITARY ASSISTANCE PROGRAMS THAT WE HAVE SOUGHT TO TAILOR TO THE NEEDS OF OUR FRIENDS IN THE REGION ARE THE MOST APPROPRIATE AND THE BEST MEANS OF ACHIEVING THESE MULTIPLE OBJECTIVES.

FINALLY, AS THIS SUBCOMMITTEE DELIBERATES ON ITS RECOMMENDATIONS TO THE CONGRESS, IT SHOULD RECOGNIZE THAT MILITARY ASSISTANCE FINANCING IS NOT A GIVEAWAY PROGRAM. WITH THE EXCEPTION OF THOSE CASES WHERE CONGRESS HAS MANDATED EXPENDITURES OVERSEAS, MORE THAN 98% IS SPENT IN THE UNITED STATES FOR ARTICLES AND SERVICES. THESE EXPENDITURES USED TO FINANCE FOREIGN MILITARY SALES RESULT IN JOBS AND TAX REVENUES AND THEY HAVE A FAVORABLE BALANCE OF PAYMENTS IMPACT. ON THE OTHER HAND, THE PROVISION OF SECURITY IS NOT BASED ON THE BENEFITS FOR THE U.S. ECONOMY NOR SHOULD IT BE LOOKED UPON AS A JOBS PROGRAM. BUT NEITHER SHOULD IT BE VIEWED AS HAVING AN ADVERSE IMPACT ON OUR ECONOMY.

I KNOW I REFLECT THE VIEWS OF THE SECRETARY OF DEFENSE WHEN I URGE THE COMMITTEE TO GIVE FAVORABLE CONSIDERATION TO THE ADMINISTRATION'S SECURITY ASSISTANCE PROPOSALS FOR FY 1986 AND THE PROPOSED LEGISLATIVE CHANGES TO IMPROVE OUR ABILITY TO IMPLEMENT THE PROGRAM YOU AUTHORIZE.

THIS CONCLUDES MY REMARKS. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

THANK YOU.

Senator BOSCHWITZ. Mr. Langmaid, did you want to summarize your remarks?

Mr. LANGMAID. No, Mr. Chairman. I will be happy to go to your questions.

Senator BOSCHWITZ. I would propose, Senator Pell, to go over the countries in the area on a one by one basis, rather than having an overall view, which we have gotten from the witnesses.

Perhaps we should start with Egypt. Egypt is going to receive $815 million in ESF grants, slightly less in Public Law 480 which I see, has come down over a period of years. It must be a belief on your part that the needs are subsiding?

Mr. LANGMAID. Mr. Chairman, we have been concerned for a number of years with the overall level of Public Law 480 in Egypt and have been gradually trying to reduce that level, as well as deal with some of the production problems in their agricultural sector to increase their own productive capacity.

The reductions have been relatively modest. They reflect budget considerations as well as a concern to keep the level to an absolute minimum.

Senator BOSCHWITZ. Have the Public Law 480 grants to Egypt had any measurable impact on agricultural trade? It used to be that with Public Law 480 we were successful in opening markets and having an impact also on agricultural practices. Has that been evident in trade for us?

Mr. LANGMAID. There has clearly been some impact over the 10 years of the program in developing a relationship with U.S. agriculture. In addition to Public Law 480, sizable amounts of corn and on occasion tobacco, lentils, and soybean meal are financed under the AID CIP, the commodity Import Program. And there have been commercial purchases as a result by the Government of Egypt in the United States.

I cannot give you a one-for-one comparison of the effect, but there clearly has been a benefit in introducing the Egyptians to the U.S. marketplace.

Senator BOSCHWITZ. What do we normally send them? Do we send them oils or what?

Mr. LANGMAID. The Public Law 480 is almost all wheat, sir.

Senator BOSCHWITZ. Wheat and wheat flour? No oils?

Mr. LANGMAID. They are a major producer of cotton and cottonseed, so there is not much oil being imported. On occasion there has been some soybean oil, but it is not a large item.

We have sent them a sizable amount of corn, but the Public Law 480 has financed almost all wheat and wheat flour. The corn has been financed under the Commodity Import Program.

Senator BOSCHWITZ. The reason I ask is, if we can send them some type of processed food it would probably be to our advantage. Do they meet their own needs for various vegetable cooking oils?

Mr. LANGMAID. That is my understanding, Mr. Chairman. They are a large producer of a range of oilseeds, but obviously the principal one is cottonseed.

Senator BOSCHWITZ. Ambassador Murphy, I note that in the ESF, we are going to provide them $100 million in the form of cash transfers. Why not more? Very obviously, they need the cash to make payments to us, among other things. I understand that we would like to do with the money what we want to do. But if this is really economic support funds, $100 million out of $800 million is given to them in an open leverage kind of way.

Ambassador MURPHY. Mr. Chairman, in view of Egypt's developmental needs, we think there should be a mix between balance of payments support and project assistance. For fiscal year 1986 we have identified $515 million in priority development activities.

Of the proposed $300 million balance of payments component, you are correct, we did propose only $100 million to be provided as cash transfer, with $200 million as a Commodity Import Program. We think that reserving $200 million for commodity imports addresses the interests of our exporters, while also meeting high priority Egyptian import requirements.

However, should the total ESF Program be expanded, we would consider expanding the cash transfer component.

Senator BOSCHWITZ. You know, to put another $515 million into projects I think is very nice. There still is, I think, $2.5 billion still in the pipeline.

As you know, each year we talk about the slowness with which it is spent out. We hear the reasons for that on an annual basis. Rather than putting additional moneys into the pipeline—and it seems to be used up a little faster this year than last year—it would seem to me that some consideration, even at these levels, could be given to making a greater transfer of cash, say $200 million, instead of $100 million.

Is that something the administration would consider?

Ambassador MURPHY. Well, within the present limits of the program, Mr. Chairman, we would prefer to keep that balance. But I think we are pleased with the way the projects—the pipeline has been drawn down. It is moving better this year than it was in the previous years. I think Mr. Langmaid may have the exact figure on that.

Mr. LANGMAID. I might add, Mr. Chairman, that I am aware of your concern from last year with the pace of the pipeline. Last year we noted it is now expending at a faster rate than new obligations. I am glad to report it continues to expend at that rate.

The pipeline is down to $2.4 billion.

Senator BOSCHWITZ. $2.4 billion?

Mr. LANGMAID. $2.4 billion. We expect it to be down to $2.1 billion by the end of fiscal year 1985.

Projects give us an opportunity to ensure that the funds are in fact used for valid development activities and we know what we are buying. We know when they are finished, and we can ensure that the benefits are in fact realized.

Cash presents something of a problem in that regard. In the absence of a policy framework where one is confident the funds will be used to promote sound long-term development, we look at cash with a measure of caution in terms of the size of the program.

Senator BOSCHWITZ. Of course. I mean, we want to control the money and they want to control the money, I presume.

I understand that the pipeline now has $2.4 billion in it. Last year it was $2.5 billion. It would seem to me that if you are giving them ESF at $800 million that more cash could be given.

There is also some talk, because a number of these loans in that entire area were made at very high rates, 14 or 15 percent, whether or not we cannot reschedule them at either current or lower rates. I understand that there are some technical difficulties, whatever that means, about rescheduling to lower rates.

Mr. **Langmaid**. In terms of ESF, Mr. Chairman, it is almost all grant, and the other economic aid is highly concessional.

Senator **Boschwitz**. We are not talking about ESF. We are talking about FMS loans that were made in earlier years. The Egyptians have been slow in repaying, and some are at very high interest rates. Perhaps this should be directed at General Gast or Secretary Murphy.

What is the possibility of rescheduling some of those, or applying lower interest rates?

Ambassador **Murphy**. Mr. Chairman, we understand there has been some interest here in the Senate in rescheduling. When President Mubarak came to Washington, his prime concern on the economic side was the burden of the military debts incurred in those, I think it is, six separate loans that you referred to over the previous 4 or 5 years.

It would take legislative action by the Congress, as I understand it.

Senator **Boschwitz**. Why would it require an appropriation? Would it be an appropriation accompanied by a repayment that would balance out and then provide the new loans? We would have to wash out the old ones and put in some new ones at a lower rate, is that the idea? Therefore it would require an appropriation, but the appropriation would be offset by a receipt, I presume?

Ambassador **Murphy**. My understanding is the Treasury having signed off on the loan in a given year, has calculated into the receipts for fiscal year 1986, 1987, and so on a certain level of repayment. So it would require a fresh appropriation.

Egypt is certainly interested in finding some way to alleviate that particular burden. And we said when the President was here that we will study it carefully, that we can make no commitments at this time.

Senator **Boschwitz**. It is not clear to me that an appropriation would be required in the event that the inflows would be reduced.

General **Gast**. If I may make a comment, Mr. Chairman. I do not have the precise numbers, but the loans that have been made are well over $4 billion for Egypt, for example, through the Federal Financing Bank, an arm of Treasury. Those loans have been on a 30-year basis, 10-years forgiveness on principal but interest paid, and then the last 20 years interest and principal. These were loaned at Treasury rates as if we were borrowing for ourselves.

If one were to buy down those loans, it would take considerable points in order to buy those loans down, and that would require additional appropriations.

Senator **Boschwitz**. I am not sure that I would agree with that, and I am not sure that I would agree that the Federal Financing Bank went out and financed everything on a 30-year note.

General **Gast**. I did not mean to imply that all of it was 30 year. But the repayment schedule is spread out.

Senator **Boschwitz**. However, the interest rate that is charged at the outset continues the whole period, and the interest rate is quite onerous.

I see the red light is on. Senator Sarbanes, after original opening statements we began going, country by country, if that suits you. We have just reviewed Egypt a little bit. Do you have some questions about that, or if you want to go in a different order that is perfectly OK, too.

Senator **Sarbanes**. Mr. Chairman, I am not sure how long I will be able to stay, so I think I would just like to ask my questions.

Senator **Boschwitz**. Why do you not do that, then.

Senator **Sarbanes**. Mr. Secretary, I want to explore the question of support for the national coalition Government in Israel and the potential importance of this political development in Israel is for the prospect of achieving significant breakthroughs in the area, both in terms of addressing the economic problems within the country and addressing the broader settlement of the regional problem.

Do you regard the Peres-Shamir national coalition as a significant development in terms of opening up important opportunities?

Ambassador **Murphy**. Senator, as you recall, last summer it took several weeks, I think it was 7 weeks, to put that coalition together in Israel. It was put together for two specific purposes. The first was dealing with economic reform. The second was to deal with the issue of withdrawal from Lebanon.

A very wide consensus is represented by the national unity government in Israel to come to decisions and implement those decisions in both areas. So there is no question if, for instance, we talk of economic reform, that in the absence of a national unity government it would probably be impossible politically for any single party in the present makeup of the Israel political scene to carry out the extent of reforms that they intend to do, that they have launched.

So its support as a government, its broad-based support for economic reforms, yes, is essential, and we appreciate what it is doing.

Senator **Sarbanes**. To some extent the same is true in addressing some of their regional problems, is it not? Would you not say that the disengagement from Lebanon was related to having a national coalition government?

Ambassador **Murphy**. Absolutely. As I mentioned, I think those are the two issues that there was a very clear consensus agreement that action was needed to be taken and should be taken by this present government.

Senator **Sarbanes**. And although that was not the basis of forming the government, would you not also think it offers at least some opportunities in addressing other regional problems, perhaps better opportunities than would exist if efforts to address those problems were caught up in the traditional political byplay that has on occasion characterized Israeli domestic politics?

Ambassador **Murphy**. I suspect the byplay you refer to will come very much back to the scene when you talk of broader issues, such as the overall peace process. But there is no question that the national unity government and its members are looking for ways to advance the peace process. It is when a specific prospect, when things become more tangible, that you may see a revival of the political byplay of the past.

But on Lebanon, on the economy, there is a very wide and continuing broad-based support.

Senator **Sarbanes**. Well now, given that response, it seems to me of critical concern that we focus on the economic assistance package for Israel. I am concerned by the indication in your statement that apparently you are not prepared to indicate to the Congress your supplemental request for transitional assistance; is that correct?

Ambassador **Murphy**. Not yet, Senator, that is correct. We had hoped to come to you with both the fiscal 1986 ESF request and fiscal 1985 supplemental request, to present them together. The request for extraordinary assistance, which the supplemental would be, in fiscal 1985 is under study. The administration has had continuing very intense exchanges with the Government of Israel.

We have received the finance minister here in Washington in the last few weeks and two well known consultants on this issue, Herb Stein and Stan Fisher, have been in Israel this past week, in fact returning today, discussing with the Government of Israel its reform program and hearing from the Government of Israel its plans for the goals that it wants to and intends to achieve over the coming fiscal year, in attempting to come up with a proposal which we can submit to you as quickly as possible.

Senator **Sarbanes**. Well now, we met with Modai while he was here, we being the committee, and had an extended discussion with him.

Is it the administration's intention to indicate its view on the supplemental prior to our going to markup on the foreign aid bill?

Ambassador **Murphy**. We recognize the problem of the budget cycle, Senator, and we would hope to be in a position to recommend, but I cannot guarantee the date.

Senator **Sarbanes**. That would be by the middle of next week, as you know.

Ambassador **Murphy**. I doubt it will be by the middle of next week, sir.

Senator **Sarbanes**. Mr. Secretary, what then are we to do? This is a pressing issue before us.

Let me put this question to you. I take it that there is some question on the part of the administration as to what steps Israel should take before the administration requests the supplemental in connection with the Israeli economic program; is that correct?

Ambassador **Murphy**. We think a good deal has been done. A good deal has been laid out. The consultations are continuing with the Government of Israel to stretch ahead, to stretch our thinking, our mutual thinking ahead over the entire fiscal year ahead. I believe the Israeli fiscal year is April.

Senator **Sarbanes**. Would you agree that the existing program—with which you say you are impressed, although you want it to go further—involves a number of difficult steps, and would collapse without a supplemental?

Ambassador **Murphy**. I would not use myself the word "collapse," Senator.

Senator SARBANES. Leaving aside for the moment going further with the economic program, do you think that the current program has any chance of succeeding if it is not coupled with transitional assistance?

Ambassador MURPHY. I think that some transitional assistance will be required. The amount, the rate, the measure, the criteria by which it is disbursed, is the subject of our continuing discussions with the Israeli Government.

Senator SARBANES. Do you agree with the perception that as these various reserves are drawn down in the interim, for instance the currency reserves, Israel will come up against a more difficult situation with the passage of time?

Ambassador MURPHY. Yes, sir, there is a continuing serious problem on the drawdown of reserves.

Senator SARBANES. So that there is some need to address this matter in a prompt fashion, is there not?

Ambassador MURPHY. And it will be addressed, sir, and I expect in the very near future you will have a message from the administration.

Senator SARBANES. I have to couple that with the time schedule that we are in, because our window for addressing this issue is the markup of the foreign assistance bill, which is currently scheduled for next week. It seems to me that we need the administration's judgment, otherwise we might have to proceed to make a judgment on our own accord, would we not?

Ambassador MURPHY. I am very hopeful that we will be able to reach a meeting of the minds between the administration and Israel and between the Congress and the administration in the near future, Senator.

Senator SARBANES. I just want to underscore this. As I understand your responses, even making the existing austerity program, let alone whether it is extended or expanded, work depends on receiving transitional assistance.

Otherwise it cannot work. I do not know anyone who contends that it could work without transitional assistance.

Ambassador MURPHY. It is a question not just of transitional assistance, but the assurance that President Reagan gave the Prime Minister last October and which was repeated to Finance Minister Modai a few weeks ago about our readiness to stand by, to help avert any balance of payments crisis.

Senator SARBANES. OK. That is a given. It is a given that the passage of time without transitional assistance creates additional problems that have to be confronted. And then the final given is that we here come to deal with this issue in a markup scheduled to take place next week.

Now, given the first two factors, which obviously make it necessary to act soon, and then given the fact that the committee's opportunity to act occurs next week, it seems to me we are in the position of needing recommendations from the administration by the time of the markup. Otherwise it would seem to me we would have to move to address the issue absent the administration's recommendation, since otherwise the opportunity will pass.

And no one, no one, asserts that it is not an issue that needs to be dealt with in the very near future.

Ambassador **Murphy**. That is correct, Senator, yes.

Senator **Sarbanes**. Thank you, Mr. Chairman.

Senator **Boschwitz**. Senator Pell.

Senator **Pell**. Thank you, Mr. Chairman.

I think the points made by the ranking member are very valid indeed, and if we do not have a recommendation by Wednesday, which is the last day scheduled for the markup, we will have to make a decision ourselves.

I would appreciate, General Gast, if you could give us a breakdown of the Soviet advisers. I think you said they had many more times our number.

General **Gast**. I would be delighted to do so, sir.

Senator **Pell**. Maybe just for the sake of simplicity, you could have on the same table our advisers as well?

General **Gast**. I will give that to you. Are you speaking within the regional area, sir?

Senator **Pell**. On a country-by-country basis.

General **Gast**. Within the region?

Senator **Pell**. Yes, but not just a regional basis, a country basis.

General **Gast**. Surely.

[The material referred to follows:]*

Senator **Pell**. What, Mr. Secretary, are the implications of last week's withdrawal of our diplomats from Lebanon, in view of the general situation where we are continuing to expend aid and are pretty well involved there?

Ambassador **Murphy**. We have maintained a very high level of security precautions covering our personnel in Lebanon, be they associated directly with the embassy in Beirut or, for instance, the members of our military attached to the UNTSO. We did draw down and we will continue to adjust the numbers of our personnel in Beirut to have only those there who are absolutely necessary to carry out the job.

The risk is assessed on a continuing basis at the very top levels of the administration. That move was made last week. The numbers will undoubtedly fluctuate in the future months. But we are keeping a very close eye on the situation.

Senator **Pell**. I admire the bravery of our people there very much and the risks they take. I am attending a luncheon given by my colleague, Senator Chafee, for Dr. Plimpton, who is going out to be President of the American University of Beirut. I admire very much his spirit in going.

Ambassador **Murphy**. And I join you in that, sir.

Senator **Pell**. I have another detail, this one addressed to Mr. Langmaid. It is in connection with Tyre. What is the situation there now? Are the Israelis occupying Tyre or has it been opened up to international inspection?

Mr. **Langmaid**. If I may, I would give that question to Ambassador Murphy.

Ambassador **Murphy**. Tyre, Senator, as I recall the original plan, was to be evacuated under phase three of the Israeli overall withdrawal. There has been discussion in the Israeli media, there was a statement by General Rabin, that suggested the possibility of accelerating withdrawal. But as far as I know, Tyre is still scheduled for evacuation by the Israeli Army in phase three.

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*The material referred to is classified, and retained in the files of the Committee.

We are still in phase two, watching phase two unfold.

Senator PELL. If the chairman will excuse me, because I want to get my questions in, I will go to another area.

Senator BOSCHWITZ. Sure.

Senator PELL. What is your assessment of the state of Morocco's union with Libya and why, in view of that, are we increasing aid to Morocco? I would think that would be a very good reason for reducing it or eliminating it.

Ambassador MURPHY. Senator, we closely monitored implementation of the Morocco-Libyan alliance to ascertain whether, for legal or any other reasons, it might require changes in our programs with Morocco, particularly in the area of military supplies or technology transfers or information sharing.

Thus far we have concluded that it does not and that we can continue as before with these programs, based on our mutually perceived needs and interests. We do have a number of significant interests in Morocco. I mention, as far as our military is concerned, the access that the 6th Fleet enjoys, the Voice of America transmitting facilities, a number of programs that we have.

Senator PELL. I thought that our distaste and dislike for Libya predominated or should predominate in many of these decisions. Here to my mind we are encouraging countries to have closer relations with Libya, in this case to have a bilateral alliance really with Libya.

Ambassador MURPHY. We strongly disagreed with Morocco over the alliance. We did and continue to feel that it has given a respectability to the Libyan leadership which is uncalled for and unjustified. Morocco did this for its own reasons.

We have continuing interests in a solid bilateral relationship with Morocco and we will continue our programs and attempt to continue our programs, of staying in close bilateral ties, and avoid any implication that that relationship in our view is spread over Libya. It is strictly United States-Morocco.

Senator PELL. I would think that King Hassan's union with Libya would go very much against our interests. Would you not agree with that?

Ambassador MURPHY. Anything that enhances the respectability of the Libyan leadership is against our interests, sir.

Senator BOSCHWITZ. Senator Pell, excuse me. May I ask in conjunction with that, in Morocco whether or not there has been any evidence that Libya has provided any aid? Has the union been of some benefit to the Moroccans, other than sending a few workers over there?

Ambassador MURPHY. Mr. Chairman, I have no specific information on the assistance or the investment, whatever form of assistance might have come in financial terms, from Libya to Morocco. The employment opportunities you refer to are real. It apparently has opened up opportunities for several thousands of Moroccan workers in Libya.

Senator BOSCHWITZ. Thank you.

Senator **Pell**. Do you think there is anything more that we can and should be doing to help the Afghans?

Ambassador **Murphy**. Senator, we have the program of, I believe it was, $2 million of humanitarian assistance for Afghanistan. We are interested in an increase in that program.

Now, it has its difficulties in administration, in getting the aid to the people of Afghanistan. There are sensitivities, of course, on the part of the Government of Pakistan, because you are talking about private voluntary organizations operating in the sensitive border area of Pakistan.

But the money has started to be disbursed. Perhaps Mr. Greenleaf could speak to that directly.

STATEMENT OF CHARLES W. GREENLEAF, JR., ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. **Greenleaf**. Senator, there has been a program of $2 million, as the Assistant Secretary mentioned, which Congress appropriated this past year, basically medical for assistance for Afghan refugees. In addition to that, we are contemplating further assistance, which remains to be worked out with various private voluntary organizations.

We have also actually sent a joint AID-State Department team out to Pakistan to evaluate the longer term picture, to see whether further assistance might be useful.

Senator **Pell**. Did you say this aid was going through the PVO's?

Mr. **Greenleaf**. That is right, sir.

[Mr. Greenleaf's prepared statement follows:]

PREPARED STATEMENT OF CHARLES W. GREENLEAF, JR.

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to testify on behalf of the Asia Bureau's budget request for South Asia for Fiscal Year 1986.

U.S. Interests

The levels requested continue to represent over two-thirds of the entire Asia Bureau request. This is partly due to the great concentration of poverty in the region. South Asia contains 70 percent of the world's poor (excluding the People's Republic of China), whose incomes, food and basic consumption standards fall below what the World Bank considers to be the poverty level. Incomes in A.I.D.-assisted countries in South Asia are generally lower than on the African continent, Latin America, East Asia, and the Near East.

A major problem in Asia is the depth and breadth of its poverty and the resulting implications for economic, social and political stability. The very poor and generally large countries of South Asia remain the region's major development challenge for A.I.D.

Additionally, recent political developments and challenges to political and economic stability in the region are sources of increased concern: the continued Soviet occupation of Afghanistan and its designs to gain access to the Indian Ocean; communal tensions in Sri Lanka and India; the continuing mistrust and tension between India and Pakistan; and Asia's role as a source of illicit narcotics. The foreign aid request is aimed at mitigating some of the political strains as well as promoting economic growth, stability, and well-being in the region.

Levels of Aid

For the South Asian countries, A.I.D. is requesting $235 million for Development Assistance programs in Bangladesh, India, Nepal, Pakistan, and Sri Lanka; $250 million in Economic Support Funds for Pakistan; and $262.2 million in P.L. 480 programs for Bangladesh, India, Pakistan, and Sri Lanka. The $747.2 million total resource allocation requested is relatively stable, representing a three percent increase in nominal terms over the FY 1984 total for these countries, or a six percent decrease in real terms.

Aid Priorities

Poverty alleviation and the pursuit of U.S. national security interests remain the underlying purposes of the A.I.D. program in Asia. These concerns are met through adherence to agency and bureau strategic plans, which cover the period FY 1985 through FY 1989.

The Asia Bureau Strategic Plan targets two sectors where U.S. expertise and resources are likely to have maximum impact: agriculture and population/health. The Asia Bureau Strategic Plan also underscores four cornerstones of agency policy. These cornerstones were adopted at the beginning of the Reagan Administration.

First, we are emphasizing technology transfer, as contrasted with capital assistance. Science and technology initiatives, for instance, are taking an increasingly important role in the India portfolio.

Second, the Strategy gives impetus to more intensive and creative efforts for private enterprise programming. Country-specific private enterprise development efforts are underway in Sri Lanka. Other projects are being designed for Pakistan, Bangladesh, and India.

Third, we are supporting continued economic policy dialogue and reform. In Bangladesh, for instance, we have assisted the government to make significant policy changes in fertilizer pricing and distribution and in rural credit.

Fourth, we are committed to building sustainable, effective institutions. For example, A.I.D. assistance has placed a key role in the development of a number of strong national-level agricultural research institutions, especially in India, Pakistan, and Bangladesh.

Working together, A.I.D. and the host countries have made progress. Still, the breadth and depth of poverty in the South Asian countries will require our sustained assistance for the foreseeable future.

Pakistan

For Pakistan, we request $250 million in Economic Support Funds (ESF), $25 million in Development Assistance (DA) and $50 million in PL 480 Title I. This represents our commitment for the fifth year of the six year economic assistance program (FY 1982-1987) negotiated by the two governments in 1981.

The A.I.D. program is designed to provide foreign exchange resources to help meet the demands of structural change and economic liberalization. The composition of the program reflects U.S.-Government of Pakistan (GOP) agreement on developmental priorities. A substantial amount of U.S. aid is directed to Pakistan's two poorest provinces, Baluchistan and the Northwest Frontier Province.

Real GDP growth in Pakistan slowed to 4.5 percent in 1984 following six years during which it averaged over 6 percent. The slowing of growth in 1984 was due primarily to poor agricultural performance which resulted from adverse weather conditions and pest infestations. Pakistan's balance of payments recorded a total overall surplus of $94 million during the 1981-1983 period, despite a large deficit in 1982. Provisional figures for 1983-84 show a net deficit of $146 million. Remittances from overseas workers declined at the rate of 13 percent over the past year.

Balance-of-payments problems will continue, due to an estimated shortfall of $1.2 billion from previously announced targets for export and remittance income. Inflation is expected to remain in single digits. Unemployment, officially estimated at 4 percent, is probably much higher.

A.I.D.'s program is a major one, and we have had an impact on the country. One recently-extended project, On-Farm Water Management, is a good example what we are doing in the agriculture and rural development sector. Begun in 1976, the project is improving water conveyance efficiency on farms through watercourse improvement, precision land levelling of fields, farmer training, and institutional development. The inspection and reimbursement for work on 1,319 improved watercourses has been completed, along with precision levelling of 75,000 acres of land. As a result of this pilot effort, other donors (World Bank, Asia Development Bank) are financing an expansion of the project, using the technologies developed under A.I.D. funding.

Pakistan Narcotics

A.I.D.'s principal focus for narcotics reduction activities in Asia is Pakistan. A.I.D.'s $20 million Northwest Frontier Area Development Project in the Northwest Frontier Province was obligated in August 1983. This five-year project covers an area which has annually produced about 50 percent of all opium cultivated in Pakistan. It covers an area of 215 square miles, where 116,000 people live.

We have been building roads, providing seeds and fertilizer and setting up demonstration plots of alternative crops such as wheat, fruit trees, peanuts, and vegetables. We will continue to enhance agricultural development through improving crops and livestock; providing irrigation and watershed management; further develop infrastructure; and create more off-farm employment.

Development must continue to be linked to enforcement. A.I.D. has invoked poppy clauses three times, and in each case officials of the Northwest Frontier Province reacted quickly. In April 1984 and January 1985 poppy fields were plowed up in the Gandaf area of the Northwest Frontier Area Development Project. Fourteen and one-half acres were also plowed up in the Bara irrigation area of the Tribal Area Project in April 1984.

To ensure that we deal with all opium poppy growing areas in Pakistan, A.I.D. assisted the Government of Pakistan in producing a Special Development and Enforcement Plan (SDEP) for major opium areas not covered by the Gadoon-Amazai project.

The SDEP is being carried out under the auspices of the UN Fund for Drug Abuse Control. The U.S. has contributed $5 million. The Governments of Italy and the United Kingdom have signed agreements to provide funds for this comprehensive plan. Other donors are expected.

India

Our request for the India program consists of $85 million in DA, and $93.5 million for the P.L 480 Title II program, the largest programs in both funding categories in Asia. A.I.D.'s Development Assistance strategy is to expand India's capacity to improve the balance between food, energy and population.

Considering the U.S. comparative advantage in certain scientific and technical fields, A.I.D. can have the greatest long-term impact by concentrating on expanding India's agricultural research capacities; improving the management of irrigation systems; developing institutions for local management of forest resources; and expanding and improving the quality of rural family planning, nutrition and health programs. These objectives require sustained technological innovation and long-term institution-building, drawing significantly upon U.S. expertise in private American institutions and firms.

Our Development Assistance efforts are reinforced by the Title II program. This program supports a multi-state school feeding activity and a nutrition education effort targeted on at-risk children; a food-for-work program that improves nutrition while creating productive rural assets; and the oilseed growers cooperatives project, an agricultural production and marketing effort.

Irrigation is an important focus of the A.I.D. program in India. For example, the Gujarat Medium Irrigation project provided support to 28 medium irrigation schemes, creating additional irrigation potential of 149,000 hectares and benefiting some 72,000 farm families. The resulting additional food grain production of about 175,000 tons annually will be enough to meet the basic requirements of 700,000 to 1 million people. About 310 construction engineers received training. This $30 million loan project was completed in FY 1984.

In addition, irrigation and water management specialists from Colorado State University through the centrally-funded Water Management Synthesis project provided advice and specialized technical training in the diagnosis of irrigation project problems.

Our program is carried out against the backdrop of an Indian economy which has performed well over the past decade, despite oil price increases abroad and adverse weather conditions periodically at home. India's 7.6 percent growth in national income in 1983-84 was not unexpected given the fact that the monsoon was mild, and that it followed a year of depressed growth. We expect growth of about 3-4 percent for 1984-85. It is likely that India will achieve its average annual growth target of 5.2 percent in the Sixth Five-Year plan, which ends March 31, 1985.

The balance of payments, however, is now under pressure due to worsening terms of trade and slower export growth than planned during the worldwide recession. Medium-term growth prospects are not promising, as domestic production of oil peaks, technology-related imports increase and remittances from Indians working overseas fall off. Estimates for FY 1984-85 show further deterioration in the balance of trade with a $5.0 billion deficit.

Bangladesh

For Bangladesh we are requesting $78 million in DA, $70 million in Title III, and $19 million in Title II. The DA program gives highest priority to the goal of reducing human fertility, by supporting the use of modern family planning methods delivered by governmental and non-governmental programs. Agricultural productivity is being improved through efforts such as rural credit reforms. Rural employment activities are expanding, with particular emphasis on strengthening the role of markets and the private sector. Subsidy reductions are being made in fertilizer and foodgrain sales.

The Title III program is an important vehicle for policy dialogue and reform in the food sector. The program's objective is to ensure a secure, sufficient food supply through efficient management of the foodgrain procurement and sales system, while providing adequate price incentives to farmers.

Title II funds one of the largest Food for Work programs in the world, under which U.S. food serves as pay to laborers who upgrade rural roads, embankments and canals. The objective is to improve market access in rural areas through a combination rural road improvement and employment generation program.

Bangladesh's economic performance in FY 1984-85 will be better than anticipated a few months ago when heavy rains and extensive flooding resulted in substantial foodgrain losses estimated at between 1.2-1.5 million metric tons of rice. Economic adjustment measures and reforms taken in recent years, aided by a global economic upturn, are now yielding benefits. Despite last year's foodgrain losses due to a drought and this year's due to flooding, the economy in FY 1983-84 grew 4.5 percent and growth in FY 1984-85 probably will be only slightly less.

Still, there is a threat of inflation getting out of hand in FY 1984-85 because of excessive growth in the money supply. The balance of payments shows signs of significant deterioration with export growth expected to be only modest, remittances down from Bangladeshis working abroad, imports up, and a substantial decline in foreign exchange reserves. The Government used its own reserves in CY 1984 to purchase an additional 500,000 MT of foodgrains to offset flood losses. Given reasonable weather conditions, a modest rate of economic growth should continue through CY 1985.

The Bangladesh Government has as one of its major goals self-sufficiency in foodgrain production. This is feasible only to the extent that agricultural inputs are utilized by the farmers at appropriate levels. In order to ensure this, the Government's policy was to subsidize input prices and rely on a public sector distribution process. These subsidies were a heavy burden on the budget of a poor country, and the rationing system utilized was neither equitable nor efficient. It was a system in which the private sector played no role, and the government system was costly and inefficient.

Under the Fertilizer Distribution Improvement I and II projects, which together total about $300 million, A.I.D. encouraged the Government to further extend the private sector's role in fertilizer pricing and distribution. The logic of freer markets, the levels of financial and commodity assistance provided, and the government's realization of the problems in the sector, resulted in a number of essential changes in policy and practice.

The Government has moved retail distribution of fertilizer to private dealers, and has agreed to permit them an increasing share of wholesale distribution. It has also closed approximately 260 public fertilizer sales centers. Fertilizer prices have been increased several times although still not competitive with world prices; the subsidy is scheduled for complete elimination in 1986. Subsidies on other agricultural inputs are being reduced, e.g., pump subsidies for shallow tube wells were eliminated and pump sales were shifted to the private sector.

These policy reforms have resulted in: (1) a reduced burden of subsidies on the government budget; (2) a probable reduction in distribution costs; (3) record fertilizer sales in FY 1983 and FY 1984; (4) increased agricultural production; and (5) an enhanced role for the private sector.

Sri Lanka

The Sri Lanka request is for $32 million in DA, $26 million in Title I, and $3.7 million in Title II. The program is aimed at expanding food production, increasing incomes, and improving Sri Lankans' quality of life. Our major thrust in the rural sector has been in irrigation, including participation with other donors in the Mahaweli Basin Development program. Additional DA-funded activities continue in the health and private sectors.

The Title I program reduces Sri Lanka's food gap, supports food-related policy improvements, and generates local currency for rural development activities. In FY 1986 the request is to convert to a Title III program to enhance its developmental impact. The Title II program supports maternal-child health and school-feeding programs.

The Sri Lankan economy grew about 5 percent in 1984, better than expected in a year adversely affected by the 1983 communal riots and increasing insurgency. However, private sector investment has been slowed, and unemployment hovers at over 14 percent. Sri Lanka's economy is heavily dependent on imports of goods; the value of 1982 imports exceeded exports by 75 percent. The GSL is taking steps to try to improve management of its stagnating plantation industries, and in January 1985 Sri Lanka restructured taxes and tariffs to remove the incentive bias against exports.

Also of concern is Sri Lanka's external debt burden. By the end of 1983, the debt service ratio had risen from 11.3 percent in 1980 to 17.7 percent in 1983. However, the balance of payments situation improved by the third quarter of 1984, due primarily to tea export earnings.

Sri Lanka's current account situation and its balance of payments have thus far not reached a crisis state. However, there is concern that the Government's political/communal problems may cause it to avoid facing the hard structural and economic decisions which could lead to more rapid and sustainable growth.

One of the most important A.I.D. efforts is the Water Management Project. A confederation of water users associations in the Gal Oya Region of Southeast Sri Lanka was formally inaugurated recently, an important development for dry zone water needs. These water user associations are being organized under the Water Management Project, which has two major components: (1) the improvement of water management and (2) rehabilitation of a 30-year-old irrigation canal system on the left bank of the Gal Oya River.

The water user associations play an important role in water management by providing the farmers with a voice in the allocation of water resources and a mechanism for allocating water among their members. Both farmers in the 240 associations now established and irrigation officials have expressed their happiness with the improved communications and reduced levels of conflict these associations have fostered. Another 270 associations are expected to be formed over the full 5 year life of the project.

Also under the project, which has a life-of-project cost of $5.1 million grant and $10.8 million loan, 600 kilometers of irrigation canals have been fully rehabilitated. Once all 1630 kilometers of canals included in the project are up to standard, 23,000 hectares of land will be receiving adequate water supply to the benefit of 19,000 farm families.

Nepal

For Nepal we are requesting $15 million in DA. The portfolio focuses on agricultural development, irrigation and water management, arresting environmental degradation, family planning and health, and teacher training.

One of the most important examples of how A.I.D. is helping Nepal increase agricultural production is the Nepal Integrated Cereals project. It aims to generate improved production technologies for major foodgrain crops, and transfer them to Nepali farmers. A dry season wheat production program covering 19,000 farmers gave 19 percent higher yields to participating farmers than non-participants; they spent 218 rupees more per hectare for seed and fertilizer, but received 780 rupees more in income.

Another survey of an irrigated rice-and-wheat area showed participating farmers' combined yields averaging 179 percent higher than those of non-participants, with income gains averaging 62 percent. At an unirrigated site, average total production with the improved technology was 239 percent of previous production, with a doubling of income. While these were controlled field tests, the results clearly demonstrated to the farmers the potential for production and income gains from adoption of the technology packages.

Nepal's economy is still largely based upon subsistence agriculture on which the vast majority of Nepalese depend. Fifty-one of seventy-five districts are food deficit, and country-wide rice yields have declined over the past ten years. Population growth remains close to 3 percent per year. A good harvest last year as a result of favorable monsoon rainfall gave the country some respite from the economic deterioration of the previous year. Agricultural production was up 20 percent over FY 1982-83, and 7 percent over FY 1981-82, which contributed to an estimated increase in the GDP of about 7 percent.

The balance-of-payments position was in Nepal's favor until FY 1981-82, largely due to inflows of transfer payments and foreign assistance. In FY 1982-83 Nepal experienced a payments deficit of $47.2 million, mainly due to a sharp reduction in agricultural production.

The balance improved slightly during the first nine months of FY 1983-84. It is expected to be marginally on the positive side at the end of the year, as the government continues its policy of reducing imports of nonessentials through higher import taxes and imposing quantitative restrictions and stricter licensing requirements.

U.S. and Other Donors

The U.S. was not the major bilateral donor to any assisted Asian country, with the exception of Bangladesh, for the period 1978-83. In Bangladesh, the United States contributed 20.8 percent of total bilateral aid. In India, the U.S. was the third largest bilateral contributor; in Nepal, the fourth; in Pakistan and Sri Lanka, the U.S. was the second largest bilateral donor.

A significant degree of aid coordination is carried out by our A.I.D. Missions and A.I.D./Washington staff both with multilateral and with other bilateral donors. Each South Asian country has an annual consortium meeting, which includes key government officials and is chaired by the IBRD.

Conclusion

A major problem in South Asia is the depth and breadth of its poverty and the resulting implications for economic, social and political stability. With the exception of Sri Lanka, South Asia health and nutrition indicators are lower than those of less developed countries as a whole.

There have been notable improvements throughout South Asia over the past ten years. For instance, the growth rate was 6.5 percent in 1983. Still, much needs to be done regarding the problems of hunger, disease, and absolute poverty. Addressing these problems is focus of A.I.D.'s program in South Asia.

I appreciate this opportunity to appear and discuss our program. I look forward to answering your questions.

Ambassador MURPHY. Most of that, Senator, has been the International Committee of the Red Cross. There is a Swedish group and there is a French group, Medecins Sans Frontiers, operating there.

Senator PELL [presiding]. Thank you very much.

Senator Dodd.

Senator DODD. Thank you.

Has the Taba situation been raised yet?

Ambassador MURPHY. Do you mean the dispute between Israel and Egypt?

Senator DODD. Yes. Has that been raised?

Ambassador MURPHY. No, it was not.

Senator DODD. When President Mubarak was here, he was asked about that. He seems to consider this a major sticking point between Egypt and Israel in terms of normalization of relations, as well as the exchange of Ambassadors and so forth. Would you give us a brief summary of what that situation is and how you think it might be resolved?

Ambassador MURPHY. Senator, it is a very small area on the gulf next to Eilat, the Israeli center of Eilat. In the last few years a tourist hotel was built on that site by Israeli investors. The area is in dispute as to whether it lay within the mandated area of Palestine or within Egypt. That is the nub of the dispute.

It was one of the three issues which Egypt has cited as necessary to see progress on before the return of the Ambassador. You are quite right, there is that aspect of normalization. How exactly that will be dealt with is a matter that the Israelis and the Egyptians are continuing to discuss.

There was a meeting at the end of January at Beersheba between the two teams. We participated at the invitation of both. It was focused on the role of the multinational force organization, the security role that that force might play within Taba.

We expect there will be a follow-up meeting on that in the near future, but it has become one of the three sticking points, issues between Cairo and Jerusalem. Egypt feels it has a solid claim to the area and has asked that the issue be put to arbitration. Israel has felt that it should go from a stage of negotiation to conciliation and only then to arbitration.

That is the parameter of the problem. Now, it has become, through extensive publicity about it, a problem for public opinion in both countries. I repeat, when you step back and look at the map and look at the states, in terms of the value of improving relationships between the two countries, it is dumbfounding that it has become such a problem, that it has for both leaderships.

They are seriously trying to come to terms with it, and we certainly will support any efforts to move that to a quick resolution.

Senator DODD. We have not taken a position ourselves on it, have we?

Ambassador MURPHY. No, we have not, Senator.

Senator BOSCHWITZ. Senator Dodd, if I may pursue that line for just a moment, prior to your getting here I indicated that parts of our aid should perhaps be transferred to cash with respect to Egypt. I like to be as helpful as I can, but very frankly, the business of the Ambassador is disturbing. If we were to not have ambassadorial relationships on these three sticking points or their equivalent with other countries, there are many countries in the world with whom we would not have ambassadorial relationships.

I find that the lack of an ambassadorial relationship by Egypt with Israel really is predicated on a rather thin set of circumstances, in my judgment. I would hope that he would be returned, and when he is returned, we will certainly take note of it.

It is in my judgment no big thing. They should have ambasadorial relationships. The causes for their not having an Ambassador in Tel Aviv are thin indeed and really cause more comment than the situation justifies in my judgment.

Senator DODD. Let me ask something else. I would just like to get a little history on this, and maybe, General, you could fill me in on this. Ras Banas. What was the understanding between the Carter administration and the Egyptian Government with regard to the use of Ras Banas?

General GAST. Perhaps the Secretary could answer that.

Senator DODD. I raised this with President Mubarak. I am curious about the historical background. I have some confusion as to whether or not there was an understanding about the use of that facility between the Carter administration and the Egyptian Government at the time the Camp David accords went into effect.

He gave me a bit of a different interpretation. I wonder if you might address that.

Ambassador MURPHY. Senator, I would like to make a couple of comments, but in that I was not involved in the earlier years on that question I would like to submit a statement for the record for your information on how the issue developed.

Senator DODD. Fine.

[The material referred to follows:]

During the Carter administration President Sadat offered the USG temporary access to the Egyptian facilities at Ras Banas during a contingency in which an Arab or Muslim country requested U.S. assistance. This offer was reiterated in a letter to President Reagan in July 1981. Sadat hoped that the USG would help his government technically and financially to up-grade the facilities at Ras Banas so that they would be more useful to both Egyptian and U.S. forces. President Mubarak acknowledged this commitment and authorized a long series of bilateral talks on United States-Egyptian cooperation in modernizing the base. These talks did not end until it became clear to both sides that U.S. law and regulations concerning foreign military construction could not be reconciled with the requirements of Egyptian law and sovereignty. Nevertheless, the Egyptian Government has since reaffirmed its offer to grant the United States the temporary use of military facilities for the purpose of assisting any threatened Arab or Muslim country requesting such assistance.

Ambassador MURPHY. Basically, we were not able to marry or mesh American laws and regulations with those of Egypt when it came down to the question of access to Ras Banas and construction at Ras Banas. But the precise nature of the understanding back in the previous administration, I would like to submit to you for the record.

We have been assured by President Mubarak—and I think there is a wide consensus on this in his government—that in the event of an appeal for our assistance by any Arab, by any Islamic country, all facilities in Egypt would be at our disposal.

But on that specific issue of how we would manage our requirements of overseeing construction, for instance Corps of Engineers involvement, we just were not able to reach an agreement with the Egyptians, given their regulations.

Senator DODD. I would appreciate that.

Ambassador MURPHY. I would be very happy to submit that.

Senator BOSCHWITZ. It almost sounds, Senator, like cause for them to withdraw their ambassador. [Laughter.]

Ambassador MURPHY. He has just arrived, Mr. Chairman. We do not want to see that.

Senator BOSCHWITZ. I understand that he is new on the scene, and he probably will not be withdrawn. But you know, our interests in Ras Banas really are quite a bit more substantive than some of these causes celebres that they find for withholding their ambassador.

Pardon me for interrupting.

Senator DODD. I would just like to know the history of that situation a little more specifically, Mr. Chairman. That is all.

There is another one that is not a major point, but individually the cumulative effect of it disturbs me a bit. The other one is the Voice of America. Did we make a request of the Mubarak government to put that installation in Egypt? What was their reaction and why?

I understand now that the facility is in Israel, but originally the request was made for that facility to be in Egypt and it was rejected. That is my understanding, though I do not know that it is accurate or not.

Ambassador MURPHY. Again, I think this goes back over several years, Senator, our interest in finding a site somewhere in the region, and we had discussions with a number of governments, which did not all reach the stage of a formal request by us. It was an interest in that geographic region.

We have made a proposal to the Government of Israel. They have it under what I would call favorable consideration. But I must say, they have not reached a final decision themselves.

Senator DODD. As a practical matter, I presume we inquired about how our request would be received before we formally make a request. We do not want to embarrass ourselves or a friendly government by making a request that they tell us in advance is going to be rejected.

Ambassador MURPHY. Exactly.

Senator DODD. What I am curious in knowing is whether or not we were informed early on, that such a request would be rejected if it were made formally to the Government of Egypt.

Ambassador MURPHY. Again, let me submit that to you, sir. I will research that.

Senator DODD. Do you know about that situation?

Ambassador MURPHY. Whether there was a formal request or not? I will have to check the record.

[The material referred to follows:]

In informal discussions Egyptian authorities explained that a request for a transmitter would place them in the difficult position of having to choose between Egypt's closest Western friend and Egyptian public opinion, which tends to oppose the presence of foreign facilities on Egyptian soil. We decided not to make a formal request.

Senator DODD. Putting aside the formal request, did we have a pretty clear understanding that, were there a formal request, it would be rejected?

Ambassador MURPHY. I just do not know what stage discussions with Egypt reached, because this does go back over several years that we have been interested in an expanded VOA facility in the region. So please let me check that.

The fact is that it has not been pursued in a number of countries, and Egypt is only one. It was found awkward.

Senator DODD. I understand that. Certainly I do not think any one of these things individually is too serious. There can be very sound and rational explanations for them, for the reaction.

It is just that these are not overwhelming requests and, in light of the tremendous amount of aid we are going to be asked to support. When the administration comes forward, we certainly, as I tried to suggest to President Mubarak, have questions as well from our constituencies as to what comes back in these arrangements.

There seems to be a pattern settling in where we get these vague commitments that, you can always count on us, do not ask for us to commit to you anything but you can always count on us, which hangs out there. And yet on the very specific question, something as small as a VOA operation, I am under the impression we get flat denials for such understand and help.

I am concerned about what that indicates in a larger sense. When something as small as a VOA facility is rejected, what happens indeed to that vague promise if in fact we need those facilities in Egypt, God forbid, for a reason that might involve a far more monumental commitment, if we cannot get support on something such as a VOA facility?

Ambassador MURPHY. Senator, if I could just mention a couple of facts. When it comes to some very public cooperation with Egypt, between our military and the Egyptian military, the Bright Star exercises, for example, with which you are familiar, there has been very close cooperation and no sense of hanging back whatsoever on that.

When you come to the peace treaty with Israel, we certainly want to see the Ambassador back as quickly as possible in Israel. But the treaty is intact. The treaty holds and Egypt is a full partner in trying to expand the peace process in the region.

So we think we have a good deal at stake in that relationship, and things are moving generally. I do not address the specific point you make, and certainly there have been areas where we have not seen our need and they have not appreciated that it is that important or that it could be accepted by them.

But if you look at the broad area of cooperation in the peace process, I think there is a good investment.

Senator DODD. Those are good points and I accept them. I think they certainly indicate that my assumptions are not entirely——

Ambassador MURPHY. I did not mean to suggest that you were impugning them.

Senator DODD. Mr. Chairman, did you want us to have another round? I wanted to hear a general description about what is going on in Sri Lanka.

Senator **Boschwitz**. I have no objection to your continuing, but I do not know what Senator Sarbanes' time schedule is.

Senator **Dodd**. I can wait. I have time. Paul, go ahead.

Senator **Boschwitz**. I agree with your line of questioning. Certainly many of my constituents ask, what return is received, and the answer in the case of the Egyptians is stark.

Senator Sarbanes.

Senator **Sarbanes**. Mr. Secretary, I just want to close the discussion we were having earlier by making this observation. It is my understanding from discussions I have had with various officials in the administration that there is some divergence of opinion on this supplemental temporary assistance for Israel, and on the extent of the austerity program that Israel ought to impose.

I think that some are captive to pure economic theory. They are not adequately weighing, or they are overly discounting the political considerations, and particularly the significance, as I think you conceded in the earlier round of questioning, of having a national coalition government in Israel and having Peres and Shamir moving in a joint fashion with what is 90 percent of the Knesset, roughly speaking, is that it?

Ambassador **Murphy**. Yes, sir.

Senator **Sarbanes**. Moving in a joint fashion to address some of these long-standing problems. It seems to me that unless the coalition government is supported so that it can come to terms with these problems, we may well find ourselves back in a situation with no strong leadership, and therefore without any opportunity or prospect of coming to grips with these problems.

It seems to me that point needs to be made strongly within the councils of the administration, as they consider the supplemental request which we hope to receive very shortly. You are an experienced hand in that area. Would you not regard this coalition government as an important opportunity to come to grips with some of Israel's present problems?

Ambassador **Murphy**. We think the existence of the coalition government is absolutely essential for coming to grips with economic reform, Senator.

Senator **Sarbanes**. Where would we be if it sort of unraveled? We would be in a pretty grim situation, would we not?

Ambassador **Murphy**. Well, we do not see ourselves in any adversarial posture vis-a-vis the Government of Israel on its economic reform efforts. It is a very close consultation that has been going on, and in no sense trying to apply our conditions to a very special situation that is the Israeli economy.

There is within Israel and, perhaps I would say, within the administration, honest differences of opinion about how fast and how far the austerity program should be pursued. There is a concern that if measures which are painful today are not taken today, they can be forced to take draconian measures at a later date.

So it is not a matter of purists versus realists in this, Senator.

Senator **Sarbanes**. I understand that problem. But my sense of it is there are some who are a little too wedded to pure economic theory or the textbook analysis of what should take place and they do not give sufficient weight to the fact that there has been a major political breakthrough, without which there would be no opportunity to come to terms with the economic or other problems in the area. I think it is very important that that be understood.

Ambassador MURPHY. Right sir. I would draw attention that we did submit the FMS request, so that there was no suggestion that we were in any way threatening Israeli security needs or trying to influence their planning on that score. That of course was presented to the Congress.

Senator SARBANES. Well, yes. We did question Secretary Schneider at some length about that. Do you mean the ESF?

Ambassador MURPHY. No, the FMS. That aspect was cut off from the other questions of economic reform.

Senator SARBANES. I understand that, although I happen to be one of those who thinks that the economic challenges Israel faces are as much a threat potentially to their security position as the security challenges.

Ambassador MURPHY. We completely agree with you.

Senator SARBANES. I wanted to ask Mr. Langmaid a question about the American University of Beirut. Your statement on page 16, where you propose to use some ESF money in support—is that correct?

Mr. LANGMAID. That is correct, Senator.

Senator SARBANES. I have no problem with that. I think the university performs a very important and valuable function there and has done so historically, and perhaps has an even more critical role to play in the current circumstance.

I notice you say that it is anticipated that the ASHA Program will also assist with funding.

Mr. LANGMAID. That is correct.

Senator SARBANES. How much do you expect to draw from that service?

Mr. LANGMAID. Historically the ASHA Program has provided between $3 and $4 million a year. It has varied depending on the nature of the AUB request. In the current context of the difficult situation in Lebanon and the difficulty of the university operating, we see the requirements being substantially larger than have been historically provided, largely due to the security situation.

One of the major problems AUB faces is not the university, but the hospital, which is running a sizable deficit because in fact it is handling the war wounded in Lebanon without any significant reimbursement from the Government. In that context, we saw the ESF account as being the most appropriate way of dealing with what we hope will be a relatively temporary situation.

Senator SARBANES. You would expect the ASHA contribution to increase from the $4 million a year that was previously given?

Mr. LANGMAID. No, we expect the ASHA contribution to stay at approximately its historic level. Any increases that are required we would plan to make from the ESF account.

Senator SARBANES. So you would expect about a $4 million contribution from ASHA?

Mr. LANGMAID. That is correct.

Senator SARBANES. The administration has requested $10 million total for ASHA, and if $4 million of it goes to the American University of Beirut—and I have no problem with that—I am curious to know what is going to happen with the rest of the ASHA Program.

Mr. LANGMAID. I do not directly manage the ASHA Program, Senator. My understanding of the way it is operated is that each year a number of requests come in based on some criteria that have been widely publicized in advance. Those requests are placed in priority order, and the allocations are made.

Senator SARBANES. Are you familiar with the current ASHA figure from which the $4 million is drawn this year for the University of Beirut?

Mr. LANGMAID. I think the current ASHA figure is $30 million. I believe that is what the Congress appropriated.

Senator SARBANES. $30 million. Now, you are telling me that the $4 million is critical, I gather, or that the role of the University in Beirut is critical at this point, and I agree with that. And you are going to take $4 million out of $10 million, which is what the budget request is for ASHA. I am just curious.

Let me put the question to you in a more hypothetical way, since you are not directly responsible for the entire program. Looking at it from the outside, would you not see a lot of problems connected with a program that had funded a number of institutions at a $30 million level in the current year, if that figure drops to $10 million, of which you claim $4 million of the $10 million?

You are claiming 40 percent of that, and of course underscoring how critical it is, whereas last year you claimed about 13 percent of it, is that correct? That is, this year about 13 percent?

Mr. LANGMAID. Do you mean $4 million of $30 million?

Senator SARBANES. Yes.

Mr. LANGMAID [Nods affirmatively].

Senator SARBANES. There must be some problems being created here, are there not?

Mr. LANGMAID. There will clearly be problems, given the overall budget, and particularly in this account. No one has made a final decision, obviously, at this stage on how much would go for AUB, depending on what the amount of the ASHA appropriation is.

Our thinking was that the most one could expect out of the ASHA account was roughly the historic level, and any additional increase would have to come from ESF. However, there is no administration decision at this point to do that.

Obviously, when one is planning several years in advance a budget for a university, which is essentially in a war zone, it is hard to be precise about what the requirements are.

Senator SARBANES. Let me ask you this question. Do you have under your jurisdiction other institutions that are drawing from the ASHA Program?

Mr. LANGMAID. There are a number of other institutions in the Near East region. The American University in Cairo [AUC], I have been involved into a degree. A number of the smaller schools in Greece and Israel are not under my direct management or jurisdiction. They are solely under ASHA management.

Senator SARBANES. Do you know whether your counterparts responsible for these programs are proceeding on a similar assumption to yours in the instance of AUB, which is namely that you receive roughly the historical figure?

Mr. **Langmaid**. I do not believe so, Senator, with some exceptions, and in the ASHA account there are a number of exceptions. As a general rule, ASHA has not been funding annual current costs. It tends to focus its funds on specialized capital requirements, but avoids getting into financing of current costs.

In the case of AUB, however, it has been financing current costs. It is one of the exceptions. In the case of AUC, the funds have fluctuated a good deal, depending upon what the capital component has been.

Another example which has been erratic——

Senator **Sarbanes**. What do you expect to expend at AUC in the coming fiscal year?

Mr. **Langmaid**. Well, at this stage for AUC, I think the request was something around $1.2 million last year. AUC also receives substantial local currency from an endowment created several years ago for Public Law 480, which will at least last through fiscal year 1986. There are some questions addressed in our report, beyond fiscal year 1986.

Senator **Sarbanes**. So in those two institutions you are planning to use half the ASHA fund, between Beirut and Cairo?

Mr. **Langmaid**. The request for 1985 dealt with funds necessary to construct a building on the campus, not, as I understand it, with recurrent costs. What the AUC request will be for 1986, I do not know. It has varied depending on whether their needs were current costs or whether there was a capital facility involved.

Senator **Sarbanes**. Let me ask a further question about Lebanon. We provided $150 million in economic assistance for Lebanon a couple of years ago, is that correct?

Mr. **Langmaid**. That is correct, Senator.

Senator **Sarbanes**. How much of that remains unexpended?

Mr. **Langmaid**. Of the $150 million, Senator, $40 million was reprogrammed to Grenada, reducing the amount to $110 million. Of that $110 million, $73 million remains unobligated.

That I think gives you roughly $37 million that has been obligated and I think something like $26 million of that $37 million has been expended. So the amount that has been obligated is mostly expended.

But the remaining $73.2 million, at this moment has not been obligated.

Senator **Sarbanes**. Now let me go through that. The Congress provided $150 million for economic assistance for Lebanon, is that correct?

Mr. **Langmaid**. That is correct.

Senator **Sarbanes**. The administration took $40 million of that and shipped it to Grenada?

Mr. **Langmaid**. Last year, Senator, that is correct.

Senator **Sarbanes**. And of the $110 million, $73 million of it has not been expended?

Mr. **Langmaid**. Of the $110 million, $73 million has not been obligated nor expended.

Senator **Sarbanes**. And a couple of million has been obligated but not expended?

Mr. **Langmaid**. Well, I think the mathematics will give you something like $37 million that has been obligated, and of that amount, $26 million has been expended. So of the obligations we have made, the amount has been mostly expended.

Senator **Sarbanes**. You have asked for another $10 million this year for Lebanon?

Mr. **Langmaid**. That is correct, Senator.

Senator **Sarbanes**. What is the rationale for that?

Mr. **Langmaid**. Well, I think clearly the needs far exceed either the $73 million remaining or the $10 million for fiscal year 1986 that we are talking about.

Senator **Sarbanes**. But you took $40 million and gave it to Grenada.

Mr. **Langmaid**. That is correct.

Senator **Sarbanes**. And you have $73 million sitting there, and you want another $10 million? It seems to me that you are building up a little fund there that you can just play with when you need to.

Mr. **Langmaid**. That is not our intent, Senator.

Senator **Sarbanes**. But we put this money out for Lebanon. It is not going to Lebanon. What percent of $150 million has gone to Lebanon that the Congress provided?

Mr. **Langmaid**. At this moment, roughly $30 million out of $150 million.

Senator **Sarbanes**. What percentage is that?

Mr. **Langmaid**. 20 percent.

Senator **Sarbanes**. What percent went to Grenada?

Mr. **Langmaid**. Slightly more than that, because it was $40 million.

Senator **Sarbanes**. Well, I need a rationale of the request for $10 million for the ESF in the light of these figures.

Mr. **Langmaid**. Well, Senator, the rationale is straightforward on our part. There are significant humanitarian needs in Lebanon which we would like to address as soon as the security situation would permit us to. These funds fall far short of what would be required were the security situation to permit us to address those needs.

Senator **Sarbanes**. We have $73 million sitting there.

Mr. **Langmaid**. That is correct.

Senator **Sarbanes**. Half of what we provided. And of the other half, most of it went to Grenada.

Mr. **Langmaid**. We have plans under discussion now to use roughly $14 million of that for PVO's who, even in the current situation, are trying to address the needs. Were we to begin to implement the programs we had designed previously for basic rehabilitation activities, such as reconstruction of water, sewer, telecommunications and electric power systems, the requirements would far exceed the amount of money we have available.

We certainly would hope the situation would permit us to address those needs.

Senator **Sarbanes**. Is there a current plan to reprogram any of the $73 million currently still available for Lebanon to other countries?

Mr. **Langmaid**. I am not aware of any current plan, Senator.

Senator **Sarbanes**. Does that mean there is no such plan?

Mr. Langmaid. I can only speak to my own knowledge. I am not involved in all of the budget processes, and obviously one looks at available resources at any time when there is an emergency situation.

Senator Sarbanes. Well, when the Grenada reprogramming happened, did you find out about it at the end of the process?

Mr. Langmaid. Relatively late, Senator.

Senator Sarbanes. Pardon?

Mr. Langmaid. Relatively far down in the process, yes.

Senator Sarbanes. So if there were such a plan, you might well not know about it? You would not know about it until it actually happened?

Mr. Langmaid. I cannot speak for what may be in a variety of people's minds at any one time, Senator. There are no current plans of which I am aware.

Senator Sarbanes. Mr. Secretary, I want to pursue Senator Pell's questioning on Morocco and Tunisia for just a moment. I agree with your statement of concern about the problems we face in Tunisia and the need to work with the government there to try to address them.

I take it you are proposing an increase in ESF of $2.5 million, and in FMS direct credits of $3 million and a $1 million increase in MAP, is that correct?

Ambassador Murphy. That is correct, Senator.

Senator Sarbanes. Now, according to your statement one of the reasons for this is: "Tunisia, because of its geographical proximity, is vulnerable to Libyan adventurism. Then you conclude by saying you seek to make the Government of Tunisia more confident in dealing with Libyan threats and pressures.

In short, Libyan concern about Libya is a motive force in this increase to Tunisia, is that correct?

Ambassador Murphy. Yes, sir; and that concern extends right across North Africa.

Senator Sarbanes. Morocco is getting a much more significant increase than Tunisia, is that correct?

General Gast. If I may respond, sir. Over actually what was appropriated last year, but not what was requested. The needs for Morocco are substantially greater.

Senator Sarbanes. The Tunisian figures I used were over what was appropriated last year. To carry out the parallelism, taking what was provided in the CR and comparing it to what is requested this year, the request for Morocco is a $7 million increase in ESF, $5 million in MAP, and $2 million in FMS.

So it is a much larger increase for Morocco, is that right?

Senator Boschwitz. And with no reduction in Public Law 480, as is Tunisia's case.

General Gast. If I may respond, sir. In working with the countries and understanding the requirements for Tunisia, we believe these are sufficient to maintain the modernization of their forces and the training and the supplies for what they already have. They will not acquire new things with what is in this request, except a very modest number of howitzers.

Within Morocco, there will be no major acquisitions. These are again supplies and training and trying to improve their logistics systems.

Senator **Sarbanes**. Do you agree with the Secretary that one of the reasons, perhaps the main reason, for the proposed increases for Tunisia was the Libyan problem?

General **Gast**. Precisely, yes, sir, I do.

Senator **Sarbanes**. Do you think Tunisia could have done better by entering into an agreement with Libya, the way Morocco did?

General **Gast**. I do not think so, not at all. But also, I would point out that, according to our estimations, the delta between what we are able to provide for Morocco versus Tunisia is substantially different, in that the needs for Morocco are more substantial.

If we were to reflect what they probably require, given their economic status, it would have been higher also than what was requested last year and this year, but particularly this year.

Senator **Sarbanes**. Mr. Secretary, I just want to close with this observation. It seems to me obviously a contradiction to seek increased aid for Tunisia on the basis of the Libyan threat and then to turn around and significantly enhance the Moroccan package when Morocco has just entered into a significant agreement with Libya.

Ambassador **Murphy**. Well, there are many strands in our relationship with each country, Senator. I would note on the Public Law 480 for Morocco that that has dropped some $9 million. We have substantial interests in Morocco, though, I would repeat.

Senator **Sarbanes**. Let me ask you one final question. Would you agree with the perception that once you take a figure up for a country it is very difficult in the future to bring it back down, because a psychological perception attaches to that?

Ambassador **Murphy**. It is close to being a law of nature, yes, sir.

Senator **Sarbanes**. Therefore would you agree that as we look at these figures we should be extremely careful in raising the levels, because they become the base in future years?

Ambassador **Murphy**. I think that is fair, sir.

Senator **Sarbanes**. Particularly in the permanent programs, as opposed to temporary one-shot programs. Would you agree with that?

Ambassador **Murphy**. I would agree. I would not want to overgeneralize on that because, for instance, if we take the Israeli case that we have discussed at some length today, they have a very well-focused view on the future levels of assistance that, as their program of economic stabilization takes hold and growth is restored to the economy, that they may well not need the level of permanent assistance. And this is talking some years out.

Senator **Sarbanes**. That is a good example, because there we are being very careful to consider the supplemental request as a temporary assistance program, either over 1 year or 2 years.

Has the administration decided on that point?

Ambassador **Murphy**. The thinking is on the 2-year basis.

Senator **Sarbanes**. But in any event, clearly temporary and so labeled for purposes of its consideration. So it would not be built into a permanent base with the other problems that are normally associated with raising those levels, is that correct?

Ambassador MURPHY. Right, sir; they very much have their eye on getting to a self-sustaining growth.

Senator SARBANES. Thank you.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Mr. Ambassador, I join in Senator Sarbanes' concerns about Tunisia, the inconsistency with Tunisia and Morocco.

Also some of his statements with respect to Israel. I understand the fine balance that has to exist between our actions and their actions so that we do not anticipate what they are doing, and do it in a manner that brings about the greatest response from them—which I am very anxious to obtain.

I note that this year in your proposal you have not allowed moneys to be expected with respect to the Lavi, where that was earmarked last year.

Ambassador MURPHY. Well, I think it comes under the general reluctance to see the President's hands tied by earmarking in any headings.

Senator BOSCHWITZ. We may do some of that again this year.

I agree also with Senator Sarbanes' comments about Lebanon, the $10 million added to $72 million already in the pipeline, particularly when that $150 million grant was through a special appropriation to meet what was then an emergency type of need. In the event that that arises again, we can supplement the $72.5 million that is still in the pipeline, and that it would seem to me we do not have to add.

I would say the same thing applies to the FMS direct credit. Is that a concessional rate that has been proposed?

General GAST. No, sir, it is not. It is Treasury rate.

Senator BOSCHWITZ. The same question has to be asked about that. I presume that they have some equipment that we would like to see maintained. However, the need under existing circumstances while I am sure is there, I am not sure that it justifies requesting the American taxpayers to put up that kind of additional money at the present time, with that kind of unsettled situation.

General GAST. Yes, sir; there is no doubt about it that with the status of their economy. Assuming that their military can contribute to the stability of the country, the request would be much larger than $10 million, in order to meet their requirements.

Ambassador MURPHY. Mr. Chairman, might I just make one brief comment on Lebanon?

Senator BOSCHWITZ. Please.

Ambassador MURPHY. The Government is obviously going through or continuing to go through a very difficult time. But our programs do have a certain lead time required in terms of FMS, keeping the channels open, keeping the spare parts, et cetera, flowing.

These are—I never thought I would describe $10 million as a token amount, but these amounts for Lebanon are small, earnest tokens of our interest in the Government's policy of restoring its authority throughout the country and extending its sovereignty back to its borders. So we do want to show that political signal of support.

Senator **Sarbanes**. If the chairman would yield, how much did we provide in military aid for Lebanon in the current fiscal year?

General **Gast**. $5 million, sir.

Senator **Sarbanes**. How about last year?

General **Gast**. $15 million in 1984, $5 million in 1985.

Senator **Sarbanes**. And the year before that?

General **Gast**. It was probably about the same. I am sorry, I do not have that information with me ahead of 1984. [Pause.]

Information that I have here is in 1982 it was $10 million, in 1983 $100 million.

Senator **Sarbanes**. $100 million?

General **Gast**. Yes, sir; $15 million in 1984, $5 million in 1985. And this request is for some $10 million.

Senator **Sarbanes**. How much of what was previously provided for is available?

General **Gast**. They have contributed a considerable amount of cash themselves over this, a great deal of cash last year. And of this amount, there are some $20 million unobligated from previous years.

Senator **Boschwitz**. Of the grants or of the loans?

General **Gast**. Of the loans. I am speaking with loans.

Senator **Boschwitz**. The grants were as large as the figures you have indicated?

General **Gast**. Yes, sir; but they were loans, not grants.

Senator **Boschwitz**. They were what?

General **Gast**. They were loans, not MAP, not grants. There are about $20 million or so uncommited at this stage.

Senator **Sarbanes**. OK. How much has been obligated but not expended?

General **Gast**. I would say I do not have that data, but my guess is 80 percent of it has been expended.

Senator **Sarbanes**. 80 percent of $150 million?

General **Gast**. Yes, sir; about $110 million of the $140 million in FMS credits during the past 4 years.

Senator **Sarbanes**. So there is about $25 million obligated but unexpended, and another $20 million not obligated, for about $45 million in the pipeline?

General **Gast**. Let me correct myself, Senator. In addition to the $20 million in unobligated, FMS credits, there is also an additional $20 million or so within the trust fund, the combination of the credits and the cash they have put in, in exceess to billings.

I would estimate that of the $20 million in the trust fund holding account, about $8.8 million is credit and the remainder is cash. There is also $50 million in FMS credits obligated but not yet disbursed.

Senator **Boschwitz**. Well, Mr. Secretary, I am getting onto some of the other countries. I am pleased that we are continuing our program with respect to Yemen. They seem to have an improving relationship with their neighbor. Does that indicate any type of improving relationship in general with the rest of the world?

Ambassador **Murphy**. That South Yemen is improving its relations with the rest of the world?

Senator **Boschwitz**. With North Yemen.

Ambassador MURPHY. The relationship seems to have stabilized, after a lot of fuss on the border for some 3 years back. They have spent a good deal on security, on their defense establishment, relative to the Yemeni budget.

Senator BOSCHWITZ. Is South Yemen changing its attitude?

Ambassador MURPHY. South Yemen has not been pushing aggressively against North Yemen, as it was in the period of 1980-82.

Senator BOSCHWITZ. And in other regards?

Ambassador MURPHY. I beg your pardon?

Senator BOSCHWITZ. In other regards, is that pushing as aggressively?

Ambassador MURPHY. As you know, we have no diplomatic relations at all, with South Yemen. We do not have a very good feel for its relationships other than with Ethiopia and the sort of tripartite arrangement they have with Libya. It is not my impression that there is much going on in the tripartite accord.

But the situation has stabilized both with Oman and with North Yemen. Neither feels the pressure from South Yemen that was the case as recently as 3 years back.

Senator BOSCHWITZ. Returning to Tunisia for a moment, General. This year $53 million in direct credit is proposed, as opposed to $50 million last year. I believe it is about 50-50 at a concessional rate of 5 percent and the rest at the cost to the Government.

What were the rates last year? Was it similar to this?

General GAST. Just a moment, please, sir. I do have it here. [Pause.]

Senator BOSCHWITZ. Has the situation improved or worsened?

General GAST. The data last year was 50-50—well, $50 million in loans, of which half of that was concessional, and then there was $15 million MAP.

This year, as you have indicated, there is approximately the same ratio, but there is a slight increase in the overall level.

Senator BOSCHWITZ. You answered the question.

I note that we are increasing our relationship with Oman and that indeed relationships there are good.

I notice, too, that the Pakistani economy has been growing very robustly and that we are continuing with our agreement there. Of course, always a sticking point is the nuclear program. Has any progress been made?

I note that Secretary Armacost was there and spoke with them about the need for verification through the IAEA. Has there been any progress made in that regard?

Ambassador MURPHY. Those talks continue, Mr. Chairman. The nuclear facilities are not safeguarded and that gives us a cause for concern in Pakistan. We have been discussing how the question could be approached through IAEA and a variety of arrangements that might be worked out in other ways.

Now, Pakistan's position is that it is in a region where there have been other nuclear programs and it want to see that if it moves in a given direction it is not in isolation from India and other countries. But it is a subject that we have continuing discussions with the top level of the Pakistan Government on, in making clear that our program, be it military assistance or economic, would be adversely affected by any lack of restraint in their nuclear program.

Senator **Boschwitz**. Well, they are certainly under many pressures. Recently I noted that pressure was kind of turned up another turn, so to speak. I trust that, while we recognize that and recognize what they do with respect to the Afghanis and from what Senator Hawkins tells me they are attempting to do with respect to narcotics trade, nevertheless I trust they have a very keen awareness of the importance of the proliferation issue.

Ambassador **Murphy**. We lose no opportunity, Mr. Chairman, to make that point with them. President Zia has made suggestions concerning various confidence-building measures on nonproliferation, which are contingent on Indian acceptance.

Senator **Boschwitz**. I would have a number of questions with respect to other aid in the subcontinent and Sri Lanka. I will only ask one and talk with you about it some other time.

I note, Mr. Langmaid or Mr. Greenleaf, that much is being sent, in the case of Sri Lanka, India, Bangladesh, and Pakistan, in Public Law 480. And I ask once again whether or not any processed goods, whether or not any oils are being sent most particularly, or is it just commodities?

Mr. **Greenleaf**. Well, we are sending, for example, vegetable oils to Pakistan. In fact, that is the commodity that we are sending in the Public Law 480 title 1 program to Pakistan, Senator. It is primarily commodities in Bangladesh. In India, a slight amount of vegetable oil, some processed goods, corn, soy milk, bulgar wheat, vegetable oil—but it is primarily commodities in India as well.

And that basically applies to Sri Lanka.

Senator **Boschwitz**. Well, we have a great interest in sending something other than commodities that are not processed, and we have opened up a number of markets for American producers in that part of the world because we have sent processed products there. And we hope that you will stress that. [Pause.]

Ambassador Murphy, let me ask a question related to Saudi Arabia. And I recognize that it is not strictly an aid-related question, because Saudi Arabia does not receive monetary aid from us. However, the Saudis have received large quantities of our sophisticated weapons.

Recently, I understand from visits by some Americans with saff and articles in various papers that I will put into the record show that some Americans say they are being abused. Have given rather detailed accounts of that abuse in prisons in Saudi Arabia. And those who return speak of feeling abandoned by our Government and abandoned also by those with economic interests in that part of the world.

I believe that there are 50 or 60 Americans still interned. There were recently some, I think, who were released.

What is the situation? How are we able to affect them? And have we been vigorous in trying to help our citizens who are jailed there?

Ambassador **Murphy**. Senator, we have an American community in Saudi Arabia, of about 60,000 American citizens. I am happy to say that the number that have been in Saudi prisons at any one time has rarely reached the figure of 50. In my own time there, I think it was around 30, with a series of amnesties which would provide for general releases.

I do not think there is any basis for the statement or allegation that they have been abandoned by their Government. We press vigorously with the Saudi authorities for access to any citizen who is in prison and for a fair trial.

There is no evidence of discrimination in handling of American prisoners in Saudi jails.

Senator BOSCHWITZ. There is what?

Ambassador MURPHY. There is no evidence on singling out of Americans for discriminatory treatment. Saudi jails are no fun.

Senator BOSCHWITZ. That is an understatement, from what I read.

Ambassador MURPHY. They are thinking of a project now for setting up a jail for foreigners, because they are aware that for those that break Saudi law of foreign nationalities there can be a different standard of treatment and care in the prison.

But we have gotten access to prisoners. Like many countries, you do not get access immediately. It is during the stage of the investigation that the consul has trouble getting to the citizen. But to arrange legal assistance and to ensure that if it has to go to a trial and it goes ahead expeditiously, we do press hard on that. And we have benefited from a number of amnesties in the last 2 years.

Senator BOSCHWITZ. This is an unfortunate aspect of our relationship. I hope that they do indeed set up different types of prisons. They may not treat our people differently than they treat their own people. However, I am not quite sure how to say it euphemistically, but it would be well if they would establish different terms and means of administration for at least Americans, and I trust that other governments feel the same and are pressing the Saudis in a similar manner.

I will put these articles that appeared in 1983 and 1984 in the record, so that they become a part of it.

[The material referred to follows:]

[From the New York Times, Oct. 17, 1983]

AMERICANS IN SAUDI PRISONS SAY THEY ARE BEING ABUSED

(By Judith Miller)

RIYADH, SAUDI ARABIA, Oct. 16—At least 29 Americans are in Saudi prisons, and many of them have charged that they are being physically and psychologically abused.

The United States protested to Saudia officials in Jidda two weeks ago over the charges of abuse, including beatings and other mistreatment. The protest cited cases of abuses involving 10 individuals that had been documented by American consular offices in several regions of the country.

The protest also expressed concern about the Saudi Government's reluctance to notify the United States Embassy when Americans are arrested and about the lack of access to prisoners, especially during questioning involving drugs, according to embassy officials.

Ibrahim al-Awaji, the Deputy Minister of Interior, which controls internal security and prisons, said in an interview last week that the Saudi Government had started an investigation into the charges of mistreatment but that no evidence of any abuse had been found to date.

"The investigation is in its early stages," Mr. Awaji said. "If there are any cases of mistreatment—and we do not know of any now—proper remedies will be taken."

"It is illegal under Saudi law to abuse or mistreat prisoners," he added.

There are 65,000 Americans in Saudi Arabia. On the average, 20 to 60 Americans are in jail at any one time in the country, charged with a variety of offenses. Some crimes, like drug trafficking, are criminal offenses in the United States as well. Others, like possessing alcohol, are not illegal in most parts of the United States.

"Americans here must understand that they are not in the United States," Mr. Awaji said. "The law is the law here, and it applies to all. We intend to enforce it."

He said there were 29 Americans in jail in Saudi Arabia, most charged with offenses related to narcotics or alcohol. United States Embassy officials, however, said the figure could be higher. They said as many as 40 Americans could be in jail or in drug detention centers.

In interviews, three Americans—two in jail and one who had recently been released—said they had been beaten or severely mistreated during questioning by the Saudi police.

Alvin L. Levine, 55 years old, an engineer who worked for the Arabian American Oil Company, said in an interview last week that Saudi prison guards had beaten him on the kidneys with a rubber riot stick and had flogged the soles of his feet with a splintered stick when he refused to confess to Saudi charges against him.

Mr. Levine was arrested on March 27 and convicted on July 4 at a closed trial of possessing and distributing pornographic videotapes. He said he had confessed to the crime only after Saudi officials had brought his wife to the prison and threatened her with arrest and physical harm if he did not cooperate.

4 YEARS AND $15,000

Mr. Levine was initially sentenced to one year in prison. Three weeks ago, after judicial review, he was resentenced in Riyadh to four years in jail and a fine the equivalent of $15,000. Mr. Levine acknowledged in the interview that he had a few pornographic tapes in his videotape collection. But he said he had never lent or rented the tapes to anyone.

Since his imprisonment seven months ago, Mr. Levine, who said he weighed about 150 pounds when he entered prison, has lost about 30 pounds. He was inteviewed at the prison ward of a hospital—he recently underwent surgery on his elbow—in Dammam, a Persian Gulf port city. His feet were shackled.

Elmer L. Kadry, 34, a materials supervisor for Fluor Arabia Ltd., a Saudi-American joint venture, spent more than six months in prison in Hofuf, 180 miles northeast of Riyadh, with no formal charges pressed against him. Mr. Kadry and friends said he was arrested by the police almost a year ago after he reported that his roommate in one of the area's work camps had not returned to the compound.

Mr. Kadry said that when he refused to confess to having murdered his roommate, the police threatened to keep him in jail until he acknowledged his crime.

"They never found a body," Mr. Kadry said. "They never could determine there had even been a murder. I had telephone records proving that I had been with friends far away from the camp when my roommate disappeared. But nothing seemed to persuade them."

Mr. Kadry said that when after six months in jail, he still refused to confess, a man he identified as Captain Abdullah had him thrown into an orange padded cell. He said he was then forced to listen for more than 36 hours to a high-pitched piercing tone.

"I cracked," Mr. Kadry said. "I just couldn't stand the noise."

In March, Mr. Kadry was sent for treatment to a hospital, from which he was discharged two weeks ago. Mr. Kadry is still heavily sedated. He is not free to leave the country.

A third prisoner interviewed in jail said he had personally witnessed beatings and floggings, especially of Filipino and Korean construction workers, at his jail in Dammam.

The prisoner, who also works for a large American company, provided descriptions of abuse similar to those given by Mr. Levine and Mr. Kadry. He did not want to be identified, he said, because he is scheduled to be released in a few weeks.

All three Americans maintained that neither the United States Government nor the companies they worked for had strenuously tried to prevent their imprisonment, to stop physical abuse or to secure their release.

Company representatives and United States Embassy officials, however, strongly deny that they are indifferent to the plight of the prisoners.

"We cannot intervene in the judicial proceedings of a sovereign state," Roscoe S. Suddarth, deputy chief of mission and the acting American Ambassador, said in an interview last week. "But we devote major amounts of effort to defending the rights of our citizens in jail here." It was Mr. Suddarth who delivered the American protest to the Saudi Government over the charges of prison abuse.

Robert L. Norbert, manager of government affairs services for Aramco, for which Mr. Levine worked, said the company had provided legal assistance for its 14 employees now in prison, 5 of whom are Americans. But he said many employees had a misperception that Aramco could protect them against Saudi enforcement of their laws.

"There is a feeling within this community that Aramco within this community that Aramco was able to accomplish miracles and get people out," Mr. Norberg said, "but it's not true."

The State Department's annual report for 1982 on human rights concluded that "cases of cruel, inhumane, or degrading treatment or punishment or of invasion of the home, are exceedingly rare" in Saudi Arabia.

The report, which Congress requires the Executive Branch to file, also says that "as a matter of policy," Saudi Arabia "does not permit torture or other abuse of the person by its officials or agents."

"However," the document continues, Islamic law "requires confession to convict, in the absence of eyewitnesses."

"There are occasional unconfirmed accounts of physical mistreatment of suspects," it says, "particularly in narcotics trafficking cases."

The document also says that there is often no notification of arrest by police authorities, that pretrial delays of investigation can be lengthy and that the trials, without counsel, are closed in some criminal and all security cases.

In general, however, the report says there is "no evidence of capricious arrest or imprisonment in Saudi Arabia." But it adds that "procedural safeguards in the Western tradition are weak."

The United States Embassy has recently completed a final draft of its human rights report for 1983. Officials said the sections of the report on abuse in prison and arbitrary arrest would be "far more critical" than last year's.

INFORMATION NO LONGER GIVEN

The United States Consulate in Dhahran, the oil city eight miles south of Dammam where about half of the 65,000 Americans in Saudi Arabia live, has also stopped distributing a five-page information sheet to Americans who have been arrested. The information sheet, which Mr. Levine was given in jail, says that "there have not been a single documented case of mistreatment or abuse of any American prisoner in this province."

When asked about the handout, a consular officer replied that it was being "reviewed and revised."

Mr. Suddarth said the United States Government had taken every possible step to warn Americans about the danger of breaking Saudi law. Blunt travel advisories were posted at the State Department and Commerce Department, he said, and at offices throughout the country. The warnings describe severe penalties for offenses related to drugs and alcohol and for financial malfesance.

Mr. Norbert, the Aramco official, said the company gave its new employees "do's and don'ts" orientation lectures stressing the differences between Saudi and American laws and judicial practices.

"We try to prepare them," Mr. Norbert said, "but many don't take our counsel to heart."

[From the New York Times, Aug. 14, 1984]

A Saudi Amnesty Frees Half of Jailed Americans

(By Judith Miller)

Washington, Aug. 3—Saudia Arabia has released about half the 33 Americans it was believed to be holding in prison on a variety of offenses, according to Saudi and American officials as well as one of the freed prisoners

A State department official said Thursday that 17 Americans had been freed recently under a general amnesty for Saudis and foreigners decreed late in June by King Fahd. More releases are imminent, the official added.

A Saudi Embassy spokesman said that Prince Bandar bin Sultan, the Ambassador, had been working for months to arrange the release of all Americans in Saudi prisons "to broaden and strengthen relations between the two countries."

GRATITUDE FOR ARMS IS SEEN

The State Department officials said the Saudi action was expected to ease tension between the United States and its important Arab ally over accusations that American citizens were being psychologically or physically abused in Saudi jails. Saudi Arabia has rejected the charges.

The Saudi gesture was also seen in Washington, they added, as reflecting gratitude for American military aid in June. The aid involved Reagan Administration approval of an emergency shipment of 400 Stinger antiaircraft missiles to help the Saudis defend their shipping, oil facilities and other installations against Iranian attack.

Saudis in Washington denied suggestions that the King's amnesty was related to military aid.

AMNESTY LINKED TO HOLY MONTH

State Department and Saudi officials said that the amnesty was in keeping with a tradition after the holy month of Ramadan of freeing prisoners nearing the end of their sentences.

There are 65,000 American workers and dependents in Saudi Arabia. On the average, 20 to 60 of them are in jail at any given time charged with a variety of offenses. Some of the crimes, such as drug trafficking, are also criminal offenses in the United States. But others, such as possession of liquor, are not crimes in most parts of the United States.

Last October, the United States protested to Saudi Arabia over 10 instances of psychological or physical abuse documented by consular officers in several parts of the country.

The United States expressed concern about Saudi reluctance to notify the embassy when Americans were arrested and also not permitting access to some Americans, especially during interrogation on drug charges.

Saudi Arabia rejected the American protest. The charges, which were disclosed during publication of interviews with some of the American prisoners, embarrassed and angered the Saudis.

After the report of mistreatment, Saudi officials began an investigation. The results have not been disclosed, American officials here said.

Saudis said King Fahd's amnesty did not apply to people accused or convicted of murder or of defrauding a Saudi national. These cases would have to be resolved separately, they said.

DRUGS AND ALCOHOL POSSESSION

The majority of Americans in Saudi jails were found guilty of possession of drugs or alcohol. American and Saudi officials said most of these Americans had been released or would be in a few weeks.

While Saudi and American officials expressed hope that the amnesty would improve relations between Riyadh and Washington, several of the recently released prisoners said in interviews this week they were bitter toward Saudi Arabia, the companies they had worked for and also American Embassy officials.

Some law suits filed by Americans are still pending in United States courts. Two of them are directed against the Arabian American Oil Company.

Aramco, as it is known, is the largest employer of Americans in Saudi Arabia. The Saudi-controlled company, whose former owners were Exxon, Mobil, Texaco and Standard Oil Company of California, operates the country's oil industry.

The law suits accuse Aramco of breach of contract and defrauding American employees by intentionally or negligently misrepresenting Saudi laws and legal practices.

James Knight, a spokesman for Aramco in Washington, declined to comment on the allegations in the law suits, saying that the matter was "under litigation."

LINKED TO PORNOGRAPHIC TAPES

Among the plaintiffs is Alvin L. Levine, 57 years old, an engineer who was arrested in March 1983 and convicted at a closed trial in July of possessing and distributing pornographic videotapes. Mr. Levine admitted possessing some pornographic tapes but denied that he had distributed them.

His case was among those cited in the State Department's protest last October. Mr. Levine was one of three Americans interviewed in jail.

In his law suit, Mr. Levine repeated his assertion that he had been "incarcerated, beaten and tortured" by the Saudi police. "Malicious, oppressive and fraudulent" conduct by Aramco and the kingdom, the suit asserted, resulted in more than a year of jail, estimated financial damage of more than $1 million and emotional distress.

Interviewed while in Washington this week, Mr. Levine said he intended to press his case despite the amnesty.

"I've lost a year and a half of my life." he said. "I want justice, maybe revenge. Aramco abandoned us. So did the U.S. consular officers over there."

"But it's very good to be home and be free," he added. "There is nothing like the U.S. of A."

[From the Dallas Morning News, Feb. 22, 1984]

DALLAS MAN TELLS OF "HELL" IN SAUDI PRISON

(By Mark Miller)

Dallas petroleum engineer Bruce Munden says he spent eight months in a Saudi Arabian prison because of a business disagreement orchestrated by his Saudi partners.

During the time in Dammam Central Prison, Munden said, he was tortured on the rack for minor offenses such as exercising and failing to respond quickly when his name was called.

American and Saudi officials confirm that Munden, 34, was imprisoned but will not discuss the possibility that he was tortured.

Munden, however, speaks vividly of his treatment in the prison. During interviews Monday and Tuesday after his return to the Dallas area last week, he said he was strung up on the rack at least 10 times and often saw bloody footprints in the prison hallways.

The prints, Munden said, belonged to some of the 21 other American prisoners who were regularly suspended from the ceiling in a special room and beaten on the soles of their feet with a knotted rubber hose.

When they were cut down, they left a bloody print wherever they tried to walk he said. Munden fared better: He was only strung up on the rack.

Munden said he lived with the terror of the Saudi prison for eight months because American authorities did not act speedily in his behalf.

"I'm bitter about it," he said. "They (the consulate officers) don't give a damn. They are not responsible for my release. They had the least amount to do with it. They won't stand up for a citizen's rights."

Habib Shaheen, a spokesman for the Saudi Arabian Embassy in Washington, said Tuesday that Munden was one of seven Americans released from Saudi prisons as a gesture of friendship toward the United States. Shaheen said he was aware of Munden's situation, but he could not identify the other Americans.

A U.S. State Department spokesman in Washington said Tuesday that he could not confirm the release of the seven Americans.

Shaheen said that he did not know if American prisoners were tortured but that Americans should not expect special privileges in Saudi Arabia.

State Department officials said more than 40 Americans are being held in Saudi prisons.

Vice Consul Ron Sclicher, contacted Tuesday in Dammam, said he and the other consulate officers did as much as they could for Munden. His release, Schlicher said, bears witness to their efforts.

"We are positively prohibited by (U.S.) law from serving as an advocate for anyone imprisoned," he said. "Our job is make sure no one is discriminated against on account of his nationality and to try and monitor a person's health. We did that."

Munden said the experience left him with little to return to except his family and friends. He said that his company, Timeguard Engineering Services Inc., was virtually wiped out and that his Dallas home was repossessed because of debts that mounted while he was in prison.

"I'm totally exhausted—mentally and emotionally. I think I'll need some sort of therapy and help," he said.

Despite his captivity, Munden said, he considers himself lucky.

"I feel like I was the most fortunate individual there," he said. "After eight months, I still felt like a trainee compared to some of them. They have little hope unless we can convince Washington, D.C., to get involved.

"Some of them have been there 2½ years, and they'll continue to sit there."

Munden was imprisoned in June 1983 after his Saudi business associates complained to authorities that, according to an Arabic-language contract, he owed them money. In Saudi Arabia, the accused legally may be detained until a dispute is resolved even if no law is broken, a State Department spokesman said.

Munden, who founded his firm in Dallas in 1978, said his Saudi partners had him arrested not because he owed them money but so that they could steal his technology.

The partners sought, he said, the technology he had developed that allows oil pipelines to be cleaned and sealed while they are in the ground.

Munden said his Saudi partners also wanted to arrange for Munden's competitor to profit while Munden's business suffered.

In fact, Munden said: the Arabic-language agreement had been altered by a Yemeni business manager to read that Munden was to pay $161,000 by May 27, 1983, to be released from the partnership. The manager, Munden said, would receive a $1 million payoff from Munden's competitor if Munden's firm was eliminated from bidding competition for a $10 million Saudi government contract.

The Saudis, unable to acquire the superior technology without Munden's help, abruptly dropped their claims against him after the original English-language agreement was read to the Saudi Supreme Court. But freedom, he said, came only after he had spent eight months in "hell."

"All of the Americans have had confessions beaten out of them," he said. "The Saudis would string them up by their hands and beat their bare feet. If you committed any infraction, like playing chess or cards or exercising—no exercising was allowed—they would put you on what we called the rack for an hour. They would string you up with your legs spread apart with your toes barely touching the ground for an hour and they would put leg irons on you."

A young Sudanese man who said he had been imprisoned on a minor traffic violation told Munden that he knew friends who had been detained for years for similar infractions.

"I found him hanging in the shower one day," Munden said. "I happened to be the one to push open the door and find him. He had been very depressed because he knew friends who had been in the prison for a long time."

Although Munden's friends told him that they contacted the American Consulate about his plight on June 7, Munden said no consulate official visited him until July 17—more than five weeks after his arrest. State Department officials, questioned Tuesday, would not say when consulate officers first visited Munden.

By July 17, however, Munden was in the Dammam prison, home for 1,500 prisoners of all nationalities, including the 21 Americans who were being held for a variety of charges including traffic and drug violations, he said.

"I was visited by Vice Consul Ron Schlicher. He said he was sorry they hadn't seen me before, and he said he would be talking with the company (the Saudi partners), to see if they would release me," Munden said. "And he said he would provide me with a translator." The Saudis, within their legal rights, had retained Munden's passport.

By Aug 1, Munden still had no translator and had not heard from the consulate since July 17, he said. Saudi officials allowed him to call the consulate.

"I told them I desperately needed a translator, and Schlicher said I would have one the next day," he said. "But they didn't (send one)."

David L. Hobbs, director of the State Department's Citizens' Emergency Center in Washington, said, "We try to visit them within 48 hours, depending on if the country notifies us. We make them aware of the legal situation they are in, and we give them a list of attorneys they can contact. . . . We cannot spring them from jail."

But, American consulates and embassies are not obligated to provide an American prisoner with a translator, although most will provide the service, he said.

Through August, September and much of October, Munden sweltered in the fetid prison—temperatures reached 127 in August—and waited for a translator to interpret the original English-language agreement between him and his Saudi partners, he said. That would prove he owed the company no money, he said.

Munden said he went before the Saudi Supreme Court twice in November, but because no interpreter was with him, the judge sent him back to prison both times.

In the Dallas area, Munden's mother, Nadine, and other relatives were frantic after unsuccessful dealings with the State Department and the Saudi partners in an attempt to free her son, who suffers from a mild case of diabetes. Mrs. Munden wrote congressmen, asking them to pressure the consulate and the Saudis. The consulate received several inquiries from Congress, State Department officials said.

In a December letter to Texas Republican Sen. John Tower, Consul Gwendolyn Quarterman, Schlicher's supervisor, wrote that Munden received "frequent translation services. . . . In addition, consular officers soon will be able to furnish Mr. Munden, a diabetic, suitable food in the prison. . . . We are aware that Mr. Munden feels the consulate general has not rendered him adequate service. However, this is not the case."

For the American prisoners, Christmas in Dammam was bleak.

"All of the American prisoners, saved juices that we got sometimes and bananas and fruit and made up a punch for Christmas Eve," he said. "One of the wives had smuggled in song sheets, and we sang carols. . . .

"We really thought the captain (of the prison) would stop us, but he didn't. He waited until 6 the next morning, and the guards came in and took all of our pillows and blankets away and gave them to the other prisoners," Munden said.

Finally, on Jan. 29, a translator came to the Supreme Court with Munden and read the original English-language agreement.

The Saudi partners, during the Supreme Court hearing, abruptly agreed to drop all claims against Munden if he would drop his claim that they owed him money, he said. He would be permitted to leave the country if he would agree to return in six months to resume negotiations about the alleged debt. Munden agreed to the terms but said he won't go back.

The Supreme Court judge told Munden that he would be released within a week, Munden said. Freedom did not come until Feb. 8, three weeks later.

"All of a sudden, they shoved me literally out the back door of the prison. I had to hitch a ride back into town," he said.

After another week, the Saudi partners agreed to give Munden his passport and paid for his flight to London, where Munden stayed with a friend for a few days before returning to his mother's home in Cedar Hill, he said.

Senator BOSCHWITZ. Mr. Ambassador, I see that we have been largely abandoned by the rest of the committee. We will go over some of the country-by-country specifics as we mark up the bill, though I think this morning we have covered quite broadly the aid to this region.

I believe that we will excise some moneys for Lebanon. We will have to develop a strategy with respect to Israel. It would be my hope that we could make larger cash grants to Egypt. I hope that they of course find it appropriate to return their Ambassador, which really is kind of a nonstarter type of issue from the standpoint that it receives a good deal more attention than it merits. In my judgment there is little cause for all of the emphasis that is upon it, from the standpoint that there is so little cause for the removal of the Ambassador or for not sending him back.

Unless you, Mr. Secretary, or any of the other witnesses wants to make a further statement—do any of you have anything further to say?

Ambassador MURPHY. I would like to volunteer a brief statement for the record, to be submitted for the record on the Moroccan economy, Mr. Chairman. We will get that up promptly for your consideration.

Senator BOSCHWITZ. The Moroccan economy has debts that are extremely heavy with respect to its gross national product, I think heavier than almost any other country.

Ambassador MURPHY. They are in very difficult shape.

Senator BOSCHWITZ. So I can understand the necessity for our aid to them. But if they deal with the Libyans, they cannot expect a very sympathetic ear at this committee or with any group here.

I know that they have gotten a considerable amount of attention from you and others in our Department. I know that the Ambassador is in town, and if he stops by I will express that to him as well.

[The material referred to follows:]

THE MOROCCAN ECONOMY

Morocco's economic situation is very serious and a cause for our continuing concern. Visible signs of the crisis are adverse balance of trade and balance of payments, a steadily rising debt service, continuing shortfalls in agricultural productivity, and high unemployment (estimated as much as 25 percent of the work force) and underemployment.

The economy's deterioration since the late 1970's stems from a confluence of adverse factors including many over which Morocco had little if any control: persistent drought, the falling but still high price of energy (Morocco produces no gas or oil), the steady appreciation of the dollar in which food and energy imports are denominated, collapse of prices for phosphates which are Morocco's primary foreign exchange earner, flattening of receipts from foreign workers abroad (attributable to problems in the French and Belgian economies where the most Moroccans who work abroad are employed) and from tourism (limitation placed in 1983 on amount of money French tourists can take abroad) which are the next two major foreign exchange earners, and the high cost of credit. Although the statistics available do not allow us to make a precise calculation, the conflict in the Western Sahara and military modernization costs add to these burdens. The military expenditures are offset in part by some benefits such employment, skill training of use to the society as a whole, and infrastructure development.

These factors are exacerbated by demography. Half the population is under age 19 (23 million people estimated in the census of 1982) and the continuing high birth rate (approaching 3 percent) ensures rising expectations and rising demand for the foreseeable future.

Morocco is working with the IMF and the IBRD to undertake in an orderly fashion the economic austerity measures needed to implement necessary structural economic reforms. The IMF, with which the Government of Morocco signed an agreement for a standby facility in September 1983, has been pleased with the seriousness and commitment with which the GOM has approached its problems. Nonetheless, austerity measures must be carefully designed and implemented to prevent them from fraying the delicate social fabric of the country. The GOM is well aware of the dangers, as are the multilateral institutions and the bilateral donors, primarily France, Saudi Arabia, and the United States.

General **GAST**. May I only add, in regard to Morocco, that I failed to mention we do have an agreement for construction, to have certain bases available to us for the deployment of forces. True, that was consummated before this latest unfortunate thing with Libya, but I think it is important to us in that regard, and it is another contribution to our security that I think we should keep in mind.

Senator **BOSCHWITZ**. I recognize that the Moroccans and the Omanis are the two Arab countries that indeed give us some basing rights. I think I understand, too, that that has be taken into consideration. Most of them are extraordinary recalcitrant—not recalcitrant, but they simply refuse us or make excuses, as exist with respect to Ras Banas, as Senator Dodd has elicited in his questioning.

It would be my hope that our relationships with these countries, particularly a country like Egypt with whom we have such a broad relationship, would not experience these difficulties, even with—as Senator Dodd pointed out—the Voice of America installation and the military installations that we ourselves are building.

I would like to insert into the record testimony from the American Israeli Public Affairs Committee, which we have received.

[The statement referred to follows:]

STATEMENT BY
THOMAS A. DINE, EXECUTIVE DIRECTOR
AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE, (AIPAC)
COMMITTEE ON FOREIGN RELATIONS, UNITED STATES SENATE
MARCH 21, 1985

Thank you, Mr. Chairman, for the opportunity to testify before this distinguished committee. Appearing with me are Mr. Douglas Bloomfield, AIPAC's Legislative Director, and Mr. Steven Rosen, AIPAC's Research Director.

The American Israel Public Affairs Committee (AIPAC) appreciates the opportunity to express our views on the proposed Foreign Assistance Authorization bill for FY 1986 and the state of U.S.-Israel relations.

AIPAC is a domestic organization of American citizens who value a close and consistently strong partnership between our country and Israel. On our Executive Committee sit the presidents of the 38 major American Jewish organizations representing more than four-and-one half million members throughout the United States.

As this committee considers the foreign assistance authorization for Israel for FY 1986, it faces several essential questions. How does assistance to Israel serve the national interest of the United States? Is the amount proposed proportionate to Israel's legitimate requirements? And how will U.S. aid fit into Israel's plans for recovery from its present economic crisis? I would like to take this opportunity to provide pertinent background for your deliberations on these issues.

HOW DOES ASSISTANCE TO ISRAEL SERVE THE NATIONAL INTEREST OF THE UNITED STATES?

The United States has both a moral and a strategic interest in Israel. Israel is the only country of the Middle East with meaningful free elections, a robust free press, checks and balances to prevent and correct abuses of authority, extensive protections for the rights of individuals and minorities, basic equality for women, and other safeguards and rights that are typical of a free society. It stands in sharp contrast to the other countries of the region, which include feudal monarchies like Saudi Arabia, where all power is permanently concentrated in the hands of a few wealthy princes and where average citizens are under constant surveillance by the religious police and internal security forces; dictatorships like Syria, where the government slaughtered 10,000 of its own citizens three years ago; or radical fundamentalist regimes like Iran, which terrorizes its minorities, suppresses its middle class, and ships off its youth to be slaughtered in a meaningless war.

Nothing could better exemplify the moral purposes which

Nothing could better exemplify the moral purposes which bind the United States and Israel than "Operation Moses" - the airlift of 12,000 Jews from drought-stricken Ethiopia to Israel. At a time of severe financial crisis and rising unemployment, Israel - with the diplomatic assistance of the United States - is engaged in the noble task of rescuing thousands of starving and persecuted people and giving them new lives as citizens of a free, democratic Jewish state. And Israel is undertaking this task for one reason only - because it is the right thing to do. As *New York Times* columnist, William Safire, has observed: "For the first time in history, thousands of black people are being brought into a country not in chains but in dignity, not as slaves but as citizens."

Contrast this with the reaction of Israel's Arab neighbors to this humanitarean undertaking. Libya demanded punishment, Saudi Arabia condemned both Israel and the United States, Egypt avoided either comment or assistance, the PLO charged a Zionist conspiracy, the Arab League placed the Belgian airline which transported the Ethiopian Jews on its boycott list, and Ethiopia demanded that all the refugees be sent back to live in Ethiopia.

The American people have long felt an affinity with Israel because of our shared democratic traditions and values. Precisely because of these moral and political ties, the United States has developed a strategic interest in Israel's well-being. As President Reagan has noted, Israel and the United States are "partners in the defense of freedom." Israel, like the United States, is a fighting democracy. The people of Israel, from the ordinary citizen to the leaders of all significant political parties, conceive of their interests in the same way as we do. They stand ready and able to help the United States defend the Free World. In this sense, Israel is an "organic ally." It will be there when we need it. In the vitally important part of the world that Israel inhabits, this is a rare phenomenon indeed. Israel is our only permanent ally in the Middle East and one of only two in the eastern Mediterranean.

This is not to suggest that the United States has no other friends in the region. But it is to suggest that the good relations we enjoy with those other countries are based on understandings with unelected ruling elites in societies where the ordinary person has no special love for the United States or the Western world. As we learned in Iran, such alliances with autocratic and unstable elites can be ended by the next coup or revolution. Moreover, as we are witnessing today, the increasing attraction of anti-Western, Islamic fundamentalism to the Arab masses is already forcing these elites to distance themselves from the United States. The refusal of the Gulf Arabs to grant the United States access rights, Egypt's unwillingness to live up to its strategic commitments at Ras Banas, and Morocco's alliance with Libya, are some of the more eggregious examples of the unreliability ~~of most~~ states in the region.

By contrast, the bond between the people of the United States and Israel gives them more than a common sense of purpose. It means that Israel will be allied with the United States over the long-term, long after these erstwhile allies of convenience are gone. That Israel is indeed a strategic ally of the United States has been formally recognized in the President's November 1983 announcement of strategic cooperation between the two countries. Since then, over a 14 month period, Israel has demonstrated on multiple occasions its strategic value to the United States. Israel has:

* Undertaken military planning with the United States to meet threats to mutual interests in the Middle East and the eastern Mediterranean.
* Participated in a joint naval exercise with the Sixth Fleet designed to strengthen U.S. anti-submarine warfare capabilities in the eastern Mediterranean.
* Provided access to its ports for regular ship visits by the Sixth Fleet.
* Made facilities available for the storage and maintenance of U.S. material for American use in a conflict.
* Provided twelve of its KFIR fighter aircraft to the U.S. Navy's "aggressor" squadron to help train American fighter pilots.
* Engaged in military training exchanges with the United States Marines.
* Entered into formal arrangements to provide access to its sophisticated hospital facilities for U.S. military casualties in a conflict. (These facilities have been tested in two joint medical exercises and have already been used to treat U.S. personnel injured in the bombing of the U.S. Embassy annex in east Beirut).
* Shared with the U.S. the lessons of its combat experience in Lebanon where Israel successfully used American equipment against Soviet weapons.
* Undertaken joint research and development projects with the Pentagon to build on the technological expertise acquired from decades of conflict.
* Stepped up its cooperation with the United States to combat international terrorism.

These undertakings have considerable strategic significance for the deterrent posture of the United States in the Middle East and eastern Mediterranean. They provide tangible evidence to the Soviet Union and its clients that U.S. capabilities are supported by Israel. Although, of course, Israel is a small nation, the Soviet Union understands better than some in the West just what this means:

* Israel's knowledge and experience with Soviet equipment have for many years helped the United States develop more effective weapons, counter-measures and tactics.
* Israel's naval and air forces are sufficiently strong to challenge Soviet naval forces in the eastern Mediterranean and therefore make a significant difference to the Soviet calculus of the balance of power in that area when added to American force deployments.

• Israel has demonstrated the vulnerability of Soviet SAMs and MIGs in Lebanon, forcing the Soviet Union to divert expenditures from force expansion to force renovation, and discrediting the weapons on which much Soviet influence depends. This experience deters Soviet trouble making in the region and provides Moscow with a powerful incentive to discourage adventurism in its regional clients.

Nevertheless, strategic cooperation between the United States and Israel is only the most recent visible sign of Israel's vital role as a strategic ally of the United States. Long before the United States entered into these formal strategic arrangements, Israel was playing a critical role in the promotion and protection of U.S. strategic interests in the Middle East. For example:

• Israel's relinquishment of the Sinai, at great economic cost and strategic risk, helped to consolidate U.S. ties with Egypt and wean this largest and most powerful Arab state away from the Soviet Union, while stabilizing the Arab-Israeli conflict.

• Israel's willingness to mobilize its forces against the Syrians has helped to protect Jordan and maintain the pro-Western regime there on more than one occasion - and the threat of Israeli action remains the only effective deterrent to Syrian designs on Jordan.

• Israel's war against the PLO in Lebanon dealt a vital blow to international terrorism and eliminated its global headquarters.

Moreover, Israel's role as an ally of the United States goes well beyond the confines of military cooperation in the Middle East region.

• At the United Nations, Israel voted with the United States on more than 93% of the General Assembly resolutions introduced in the 38th Session, the highest rate of cooperation of any country in the world. This contrasts with 40.5% for Turkey and 26.8% for Greece - America's NATO allies in the eastern Mediterranean; it also contrasts with 23.4% for Egypt, 19.3% for Saudi Arabia and 17.2% for Jordan - America's "friends" in the Arab world.

• In the Third World, Israel is using its expertise and experience to provide technical assistance to pro-Western developing countries in coordination with the United States. Similarly, Israel is providing security advice and assistance to pro-western governments in other parts of the world.

• In the information war, Israel has agreed to install a Voice of America transmitter on its territory to enhance American broadcasts to Soviet Central Asia and Afghanistan, despite the inherent risk of worsening the plight of Soviet Jews. By contrast, America's NATO allies, Greece and Turkey, both refused to host the VOA transmitter because of their unwillingness to endanger their relations with Moscow; reportedly, Oman has also turned the U.S. down.

In short, the people of Israel have demonstrated time and again that they are more than willing to live up to and enrich the ideals and values that we share, and that they are more than able to help defend them in an alien and hostile part of the world. Moreover, in the process of acting together, Israel has demonstrated that it is a capable and reliable partner - a country that we need on our side and a country that we can safely expect to be on our side. Accordingly, the United States has both a serious moral commitment and a vital strategic interest in Israel.

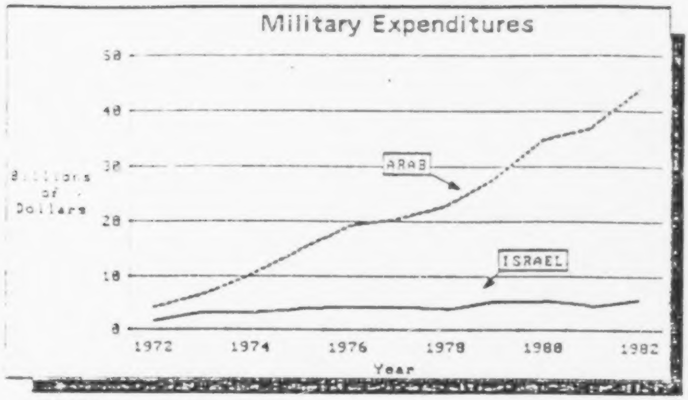
ISRAEL'S NEED FOR AID

After thirty years of extraordinary economic growth and development, Israel is now going through a period of economic crisis requiring difficult and painful reforms and readjustments. To put the problem in perspective and explain why we believe that strong support from the United States is essential to help our ally get back on its feet, we must begin with some background. Specifically, I will address four issues: first, the basic long-term, structural problems that the Israeli economy faces; second, the particular challenge posed by the current economic crisis; third, what the Government of Israel is doing to restore health to the economy; and finally, why the role of the United States is so important for the recovery plan to succeed.

Israel suffers from a scarcity of natural resources, but has had to face the challenge of absorbing over a million immigrants and refugees in a very compressed period of time, building an entire economic infrastructure in a single generation. Even today, as we meet, some ten thousand Ethiopian Jews rescued in the airlift called "Project Moses" are being absorbed, at a cost that is expected to exceed $250 million over the coming few years. Israel's rapid population growth in an environment of scarce natural resources would pose a considerable challenge under the best of circumstances.

But Israel has not enjoyed the best of circumstances. Its "neighbors" have, from the beginning, rejected its very existence and refused to engage in any form of trade, commmerce, or communication. Far worse than the economic isolation has been their relentless preparation for war against the Jewish state, and their periodic attacks. Beyond the human costs of the fighting, the wars and the continuing arms race have imposed a staggering economic burden. The October 1973 surprise attack alone cost Israel the equivalent of its entire GNP for that year--$10.3 billion. Since then, awash in a sea of cash from the inflated prices of oil, the Arabs have increased their military spending eightfold to a current level of almost $50 billion dollars. (See Figure 1).

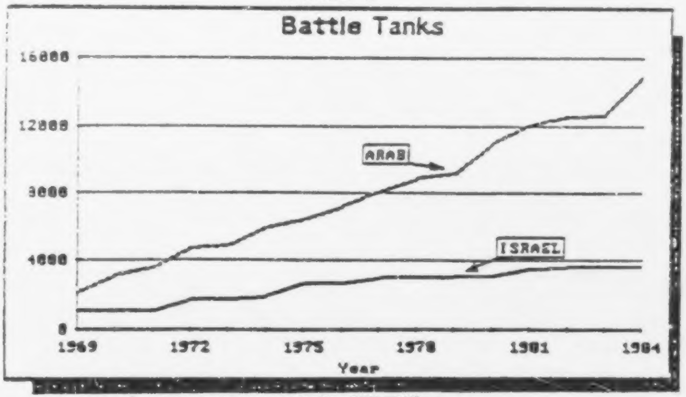
FIGURE 1



SOURCE: U.S. Arms Control Disarmament Agency.

This is twice Israel's entire GNP, and about seven times its expenditures on defense. To maintain its own deterrent and defense capability in the face of this enormous Arab buildup, Israel has been forced to increase its defense expenditures fourfold. Even at this rate of spending, the arms balance has continued to erode. While Israel's tank inventory has doubled since 1973, that of the Arabs has quadrupled (See Figure 2);

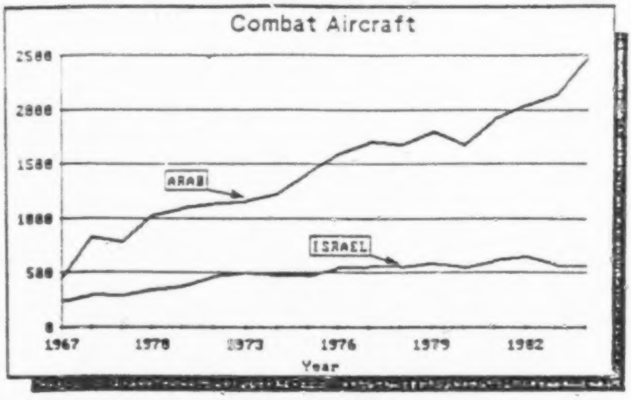
FIGURE 2



SOURCE: International Institute for Strategic Studies, Military Balance.

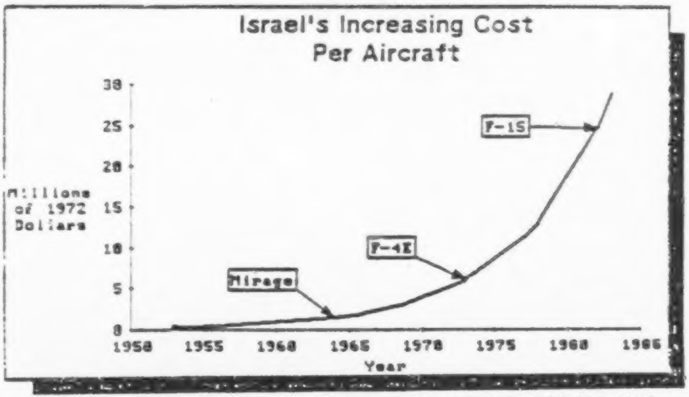
the ratio of combat aircraft, which was 2:1 in favor of the Arabs in 1973, has worsened to 5:1 in 1984 (See Figure 3). And frontline aircraft are now far more expensive to procure and operate. The advanced fighters on which Israel depends to maintain its qualitative edge cost five times as much today (in constant dollars) as their 1970 equivalents. (See Figure 4). One F-15 costs as much as all the housing for a medium-sized Israeli town.

FIGURE 3



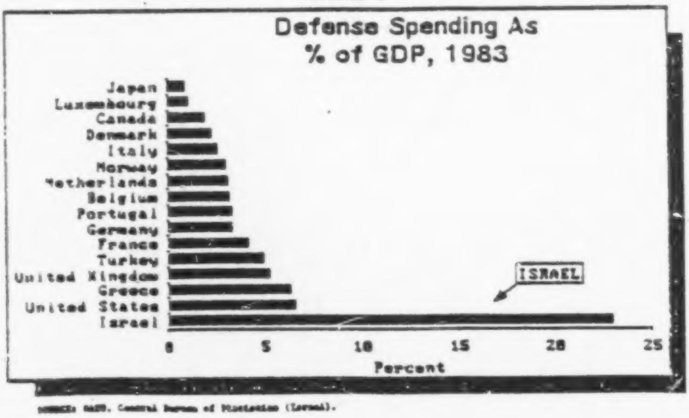
Source: International Institute for Strategic Studies, Military Balance

FIGURE 4



SOURCES: Jackson, Robert, The Israeli Air Force Story; House Committee on Appropriations, 1986; Department of Defense, [illegible].

FIGURE 5



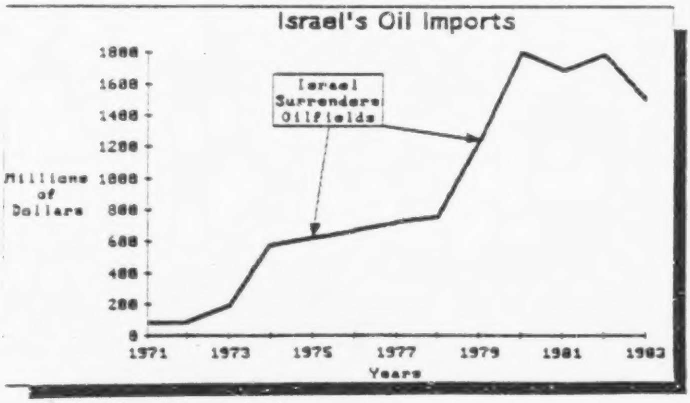
SOURCES: NATO, Central Bureau of Statistics (Israel).

medium-sized Israeli town.

The result of all this is a staggering defense burden, resulting in a corresponding increase in the need for U.S. aid. Israel spends about a quarter of its GNP on defense, financed by a combination of its own expenditures and assistance from the United States government. By comparison, Japan spends about 1%, Germany about 3%, and the United States 7%. Israel's defense burden, measured in real terms, is the highest of any country in the world. (See Figure 5).

To the growing defense burden since 1973, have been added the repeated shocks of energy price increases. Before 1975, Israel was rapidly reducing its energy dependency, as production in the Sinai oilfields increased. But in 1975 and 1979, the Sinai was relinquished to Egypt in exchange for what was to have been full peace. Israel has suffered two great disappointments since Camp David. One is the failure of Egypt to live up to the promise of that historic agreement and to normalize its relations with Israel as a true neighbor. The other is the drastic increase in the price of oil, which has made the cost of importing energy to replace the oil surrendered far greater than anyone anticipated at the time. The net result is that, in spite of extensive energy conservation measures instituted, Israel spends a billion dollars a year more to import energy today than it did before the peace process began in 1975. (See Figure 6).

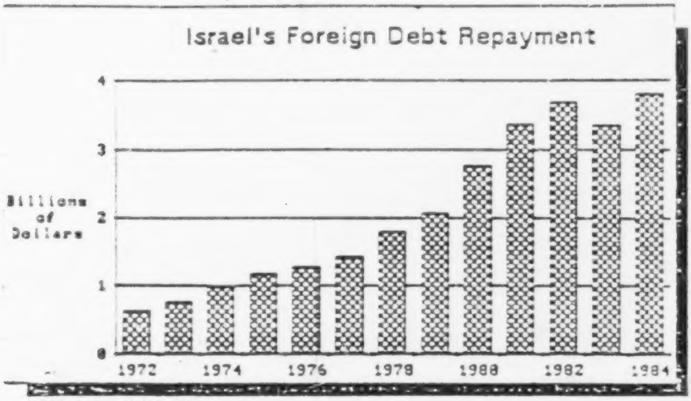
FIGURE 6



SOURCE: Central Bureau of Statistics (Israel).

Another burden that has grown astronomically is the cost of servicing the huge debt that has accumulated in the process of paying these defense and energy costs of war and peace. Israel's foreign debt service (principal and interest payments) today is almost four billion dollars per year--$1 billion to the United States government alone. This is four

FIGURE 7

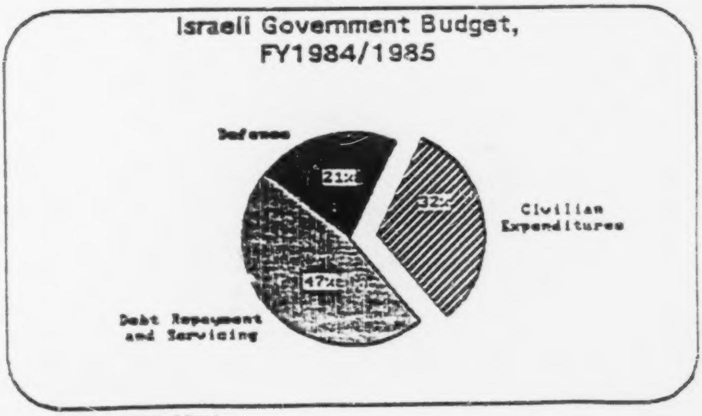


SOURCE: Government of Israel.

times the level of a decade ago. (See Figure 7). Debt service now consumes over forty percent of the entire government budget. (See Figure 8).

These three shocks--the growth of defense spending from $1.5 billion in 1972 to $5.0 billion today, the growth of energy imports from $100 million in 1972 to $1.5 billion today, and the growth of foreign debt service payments from $.6 billion in 1972 to $3.9 billion today--have added a total

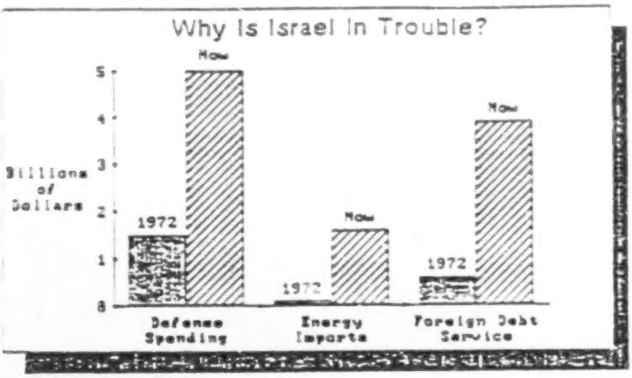
FIGURE 8



SOURCE: Government of Israel.

of $8.2 billion to the strains Israel already faced before the Yom Kippur War. To put this sum in perspective, just the amount added to the pre-1973 burden constitutes 33% percent of Israel's GNP. (See Figure 9).

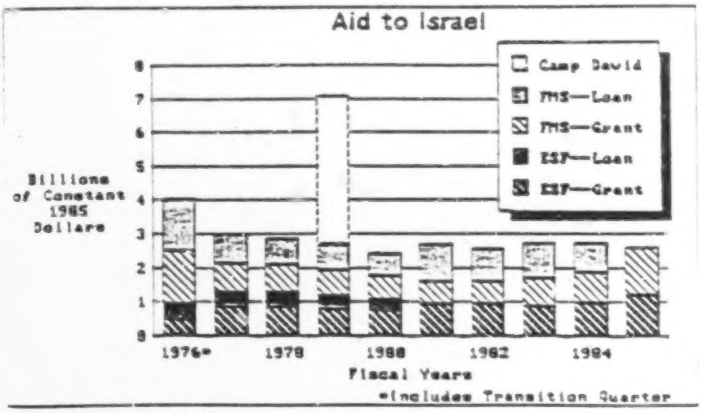
FIGURE 9



SOURCE: Government of Israel.

This sum of the three shocks is also more than three times the current level of U.S. assistance to Israel, combining both FMS credits and ESF grants. In fact, although U.S. aid to Israel has increased in current dollars, aid adjusted for inflation, aid net of Israeli repayments of past U.S. government loans, and aid as a

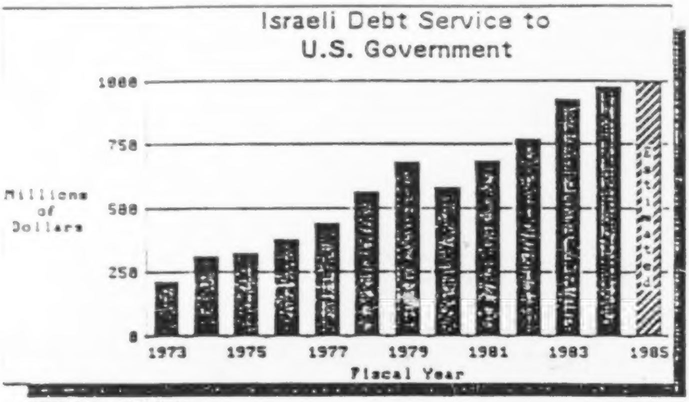
FIGURE 10



SOURCE: Agency for International Development.

percentage of Israel's GNP have all gone down. Israel is receiving $2.6 billion in FY 1985, but measured in 1985 dollars, FY 1977 aid was the equivalent of $3.0 billion, and FY 1976 $4.0 billion. (See Figure 10). Net aid has

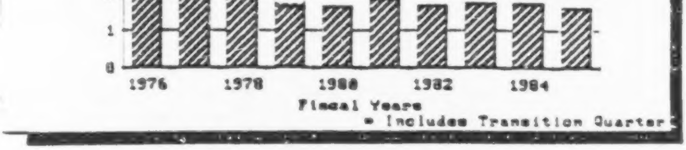
FIGURE 11



SOURCE: Government of Israel.

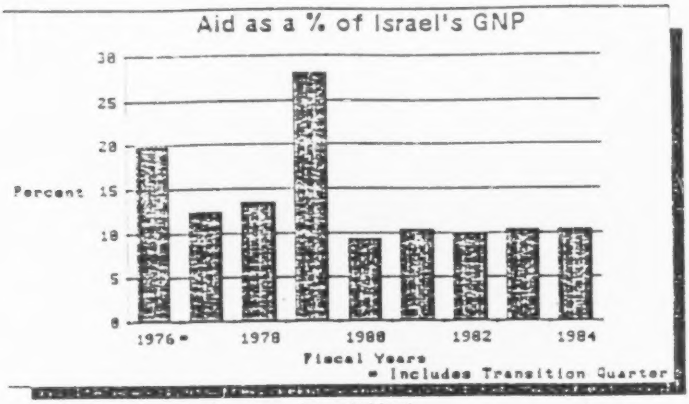
declined more sharply, because payments on past U.S. government loans have tripled from $350 million in 1976 to $1 billion today. (See Figure 11). U.S. aid net of this reverse flow is now less than half the 1976 level. (See Figure 12). And U.S. aid as a share of Israel's GNP has been

FIGURE 12



SOURCE: Agency for International Development, Government of Israel.

FIGURE 13



SOURCE: Agency for International Development, Government of Israel.

halved from 20% of GNP in 1976 to 10% today. (See Figure 13). Net aid as a portion of Israel's GNP has declined more steeply.

The point here is certainly not to minimize the significance of the United States' generosity toward its Middle Eastern ally. The reality, however, is that the burdens under which Israel's economy operates have grown astronomically, and that help from the United States, substantial as it is, has not kept pace.

ISRAEL'S CURRENT ECONOMIC CRISIS

The enormous burdens under which Israel's economy labors create a situation in which the small Jewish state has much less flexibility in determining economic policy than a country like the United States. The economic and political consequences are far more severe when miscalculations or misallocations do occur, or when adverse changes occur in the global economy. And, in recent years, Israel's problems have been worsened by both an unfortunate turn in the international market and some internal policy errors that are now being corrected.

The new external problem is an adverse change in Israel's terms of trade for imports and exports. The strong dollar has put Israeli exporters at a disadvantage and weakened Israel's trading position. Most exports go to European countries, where Israeli exporters are being paid with weaker currencies. Meanwhile, imports of oil and goods from the U.S. are denominated in dollars and therefore, are becoming more expensive relative to Israel's exports. Israel's debt service payments to the U.S. (about $1 billion in 1984) are transferred in dollars. The strength of the dollar effectively erodes Israel's balance of payments position.

Other adverse developments in recent years have been brought on by miscalculations in fine-tuning Israel's economic policy to deal with the compounded problems discussed above. In 1982, Israel found itself facing an economic war on two fronts simultaneously: spiralling inflation, and a steadily widening balance of payments deficit. In order to attack the inflation, the government tried to lower the rate of devaluation to hold down the cost of imported materials necessary for much of Israeli production. This proved to be a miscalculation: a small reduction in the inflation rate was achieved, but because imports surged, the balance of payments gap greatly widened.

Another policy which has to some extent exacerbated Israel's rate of inflation is the general practice of "indexation." Wages and financial assests automatically rise when the cost of living rises. This has protected workers, particularly those on low and fixed incomes, from the ravages of inflation. But it has also fueled inflation, both by exaggerating the effect of price increases, and at the same time preventing rising prices from reducing demand.

Because Israel is so small, policy errors such as the above have a major impact upon the economy. This is one reason why the Government of Israel must institute economic reform measures cautiously and incrementally.

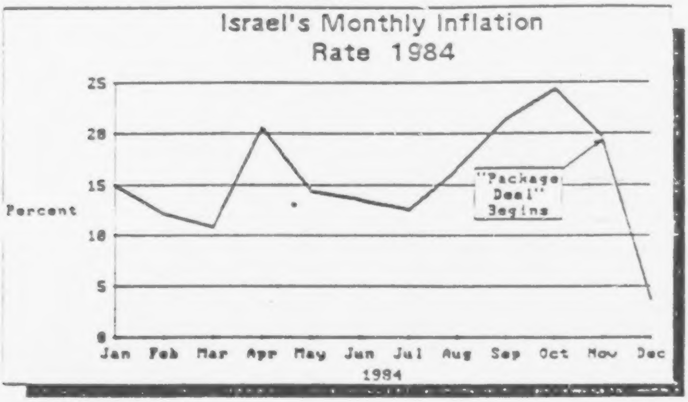
In summary, the combination of Israel's structural problems, recent changes in the global economy, and some economic policy errors of the past currently being corrected, has brought about a complex economic crisis. The crisis has six major components: (1) high inflation, (2) a balance of payments deficit; (3) a large budget deficit; (4) slowed economic growth; (5) a growing debt service burden; and (6) dwindling foreign exchange reserves. Let me highlight a few points about each of these.

1. Israel's current inflation problem: The inflation rate steadily worsened from 191% in 1983 to almost 450% in 1984. However, in the past several months, inflation has been dramatically slowed by Phase I of the "Package Deal" reached by the Histadrut (workers' union), the Manufacturers Association and the Government. The monthly inflation rate fell from 24.3% to 3.7% between October and December 1984. (See Figure 14). January's consumer price index of 5.3% reflects the government's ability to get inflation under control. Phase II of the Package Deal (which began in early February) will continue to cool inflation and give Israel a "breathing space" while basic economic reforms are instituted.

2. Israel's large current account deficit: As a result of the defense burden and natural resource scarcity, Israel has traditionally imported more goods than it has exported. The gap in its balance of payments has steadily widened over the past two decades until 1984, when there was a $1 billion

improvement in the trade account. But in 1984, Israel also paid $1 billion in interest to the U.S. Government, offsetting the improvement in the trade balance. Israel must continue encouraging its export sector to improve its balance of payments position and help the economy grow.

FIGURE 14



SOURCE: Government of Israel.

The Free Trade Area currently being finalized between Israel and the United States will be an essential tool for Israel to increase trade with the U.S. and expand its export sector.

3. Israel's large budget deficit : While it is true that the government's budget deficit is relatively large (12% of GNP), there are certain built-in constraints which make it difficult for Israel to maintain a balanced budget. About 42% of Israel's government budget is set aside for servicing the debt, and cannot be cut. Of the remaining portion, half is spent on defense, leaving only one third of the budget for all other government expenditures including "entitlement" programs. Therefore there is limited flexiblity for reducing the budget or reallocating funds. Compared to the United States, where we are also familiar with the problem of reducing budget deficits, Israel must make larger cuts from a smaller portion of its budget. It would also be extremely difficult to raise additional revenue by raising income taxes, as Israelis already face tax brackets of up to 66% and endure the highest income tax rates in the world.

4. Israel's external debt: Israel's debt is primarily due to importing essential raw materials and defense equipment, and has grown steadily over time rather than in an explosive fashion as in many developing economies. Israel has met all its debt service obligations on time and in full.

5. Slowing of Israel's economic growth : Israel experienced an average annual growth rate of 8.1% in the

1960's and 5.7% in the 1970's. This impressive growth has been slowed to a lower rate of about 2% in the 1980's. This downward trend in economic growth parallels the situation in many countries throughout the world. The lower growth rate reflects the extent to which the worldwide recession affected Israel, a country which is deeply dependent on the health of the global economy. But Israel's main asset is its enterprising and productive population, and with the right steps taken now, a resumption of rapid economic growth is a real possibility.

6. Israel's foreign exchange reserves problem: Foreign reserves are being depleted by debt service and the imbalance of trade. The solution is to increase exports and reduce imports. This process is well underway, but the Government must manage the nation's reserves carefully during the transitional period.

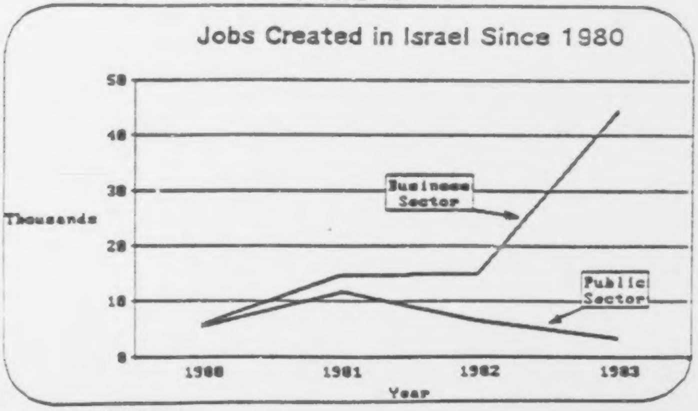
ISRAEL'S PLAN FOR RECOVERY

Israel's National Unity Government, in cooperation with organizations of workers and employers, is pursuing a bold austerity program to bring these problems under control and restore economic health to the Jewish state.

To reduce inflation, it is limiting public and private consumption by reducing government expenditures and cutting the standard of living. As part of this process, a social contract (known as the "Package Deal") among workers, employers, and the government is keeping a ceiling on prices and wages and moving away from the system of indexation.

To improve the balance of payments, it is taking steps to encourage exports, especially in the high technology area where Israel is most competitive, and reduce imports by cutting the standard of living and devaluing the currency

FIGURE 15



[illegible] Bank of Israel.

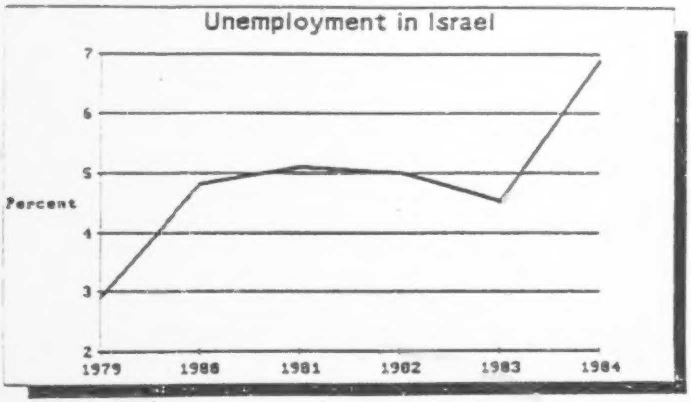
faster than the rate of inflation.

To stimulate growth, it is focussing on attracting more foreign investment and joint ventures, improving the business climate, and developing new markets for exports.

To restructure the economy, it is shifting resources and manpower out of the public sector and into the private sector. (See Figure 15). The latter, expecially the "productive" exporting part of the economy, offers the best hope of earning foreign exchange to improve Israel's balance of payments.

To avoid mass unemployment, it is finding ways to lower wages in the public sector so as to reduce the government budget without promoting joblessness. In the private sector, it is trying to promote job-creation in export industries. This is essential to avoid unemployment at levels which are socially intolerable. (See Figure 16).

FIGURE 16

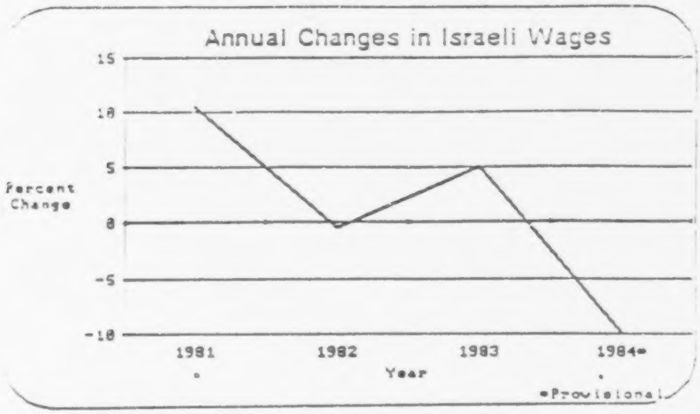


SOURCE: Bank of Israel.

To achieve all this, the government's economic program includes ambitious and often painful measures affecting almost every sector of the society. Nothing, not even defense or the entitlement programs, is exempt.

By compensating workers at less than the full rate of inflation, wages are being cut by an estimated 17-18% by March 30. This shrinks local demand, lowering inflationary pressures, and it reduces the demand for imports and thereby helps the balance of payments. For a democratic society to willfully reduce wages by 17% in a six month period is almost unprecedented. (See Figure 17).

FIGURE 17



SOURCE: Bank of Israel.

At the same time, subsidies on a wide variety of products are being reduced or eliminated, biting deeply into the living standard of ordinary people. The fuel subsidy is being terminated altogether (gasoline is now over $3 per gallon), and subsidies on water, electricity, public transportation, and basic foods like bread and milk are being reduced substantially.

Defense spending is being cut by $300 million, on top of a similar cut during the last fiscal year, for a total cut of 19% in local defense spending over two years. The Minister of Defense, Yitzak Rabin, and his predecessor Moshe Arens, have warned that such drastic reductions will adversely affect national security and the welfare of soldiers.

Education funds are being cut severely. Tuition for high school is under consideration, and university fees have already increased.

A freeze is in effect on hiring in the public sector, and on the construction of new buildings and facilities. The Minister of Finance estimates that because of the budget cuts, 15,000 public employees will lose their jobs.

The shekel is being devalued more rapidly than the rate of inflation. This raises the prices of all imports and many locally produced goods which contain imported components or raw materials, further lowering the standard of living.

Altogether, the Cabinet has approved $2.3 billion in cuts, a reduction of about 18% in the total operating budget (including all expenditures except debt service). By way of comparison, in spite of all the cuts instituted in the U.S. since 1981 under the stimulus of President Reagan's budget-cutting program, the net operating budget of the United States (excluding debt service) in FY 1985 is actually 35% greater today than in FY 1981. Israel's eighteen percent cut in one year, including defense and entitlement programs, is a stunning achievement, and represents a reduction far greater than anything contemplated in the United States since World War II.

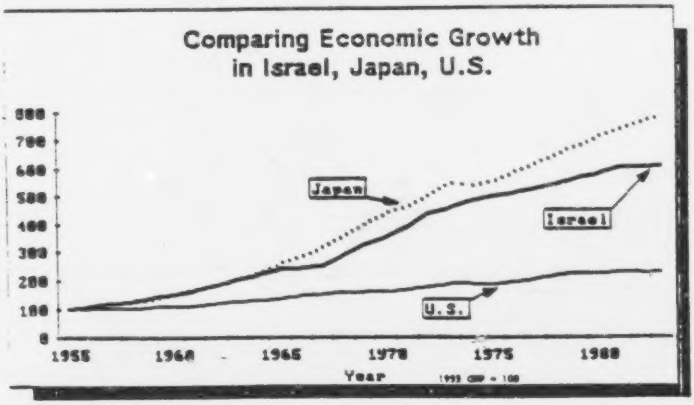
WHY U.S. ASSISTANCE IS VITAL

Israel needs America's help now, if its plan for reconstruction and recovery is to succeed. What is being put in place is a sweeping stabilization program to reduce the standard of living, cut the government deficit, stimulate exports while reducing demand for imports, and bring the growth of indebtedness under control. While dramatic progress is being made on some fronts, such as taming the rate of inflation, other adjustments will necessarily take longer to succeed, in such areas as the promotion of exports.

During this transition, Israel is asking for special understanding in the United States. It does so with the knowledge that, historically, America has been the bedrock of strength for the other democracies when the chips were down. The Marshall Plan for the recovery of Europe after World War II, our generous help to Japan in the decade after 1945, and our central role in sparking the economic growth of Brazil, Taiwan, South Korea, and Singapore--all are examples not only of America's leadership and generosity, but also of the ways in which U.S. assistance to allies under stress has led to recovery and strength in succeeding years. Today, Israel is in trouble, and needs our help.

Israel is not a basket case. It is a country with an extraordinary record of rapid economic growth (See Figure 18) that is now going through a rough transitional period.

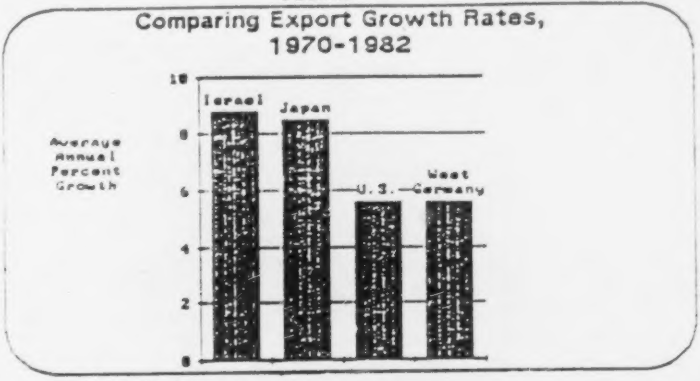
FIGURE 18



SOURCE: International Monetary Fund.

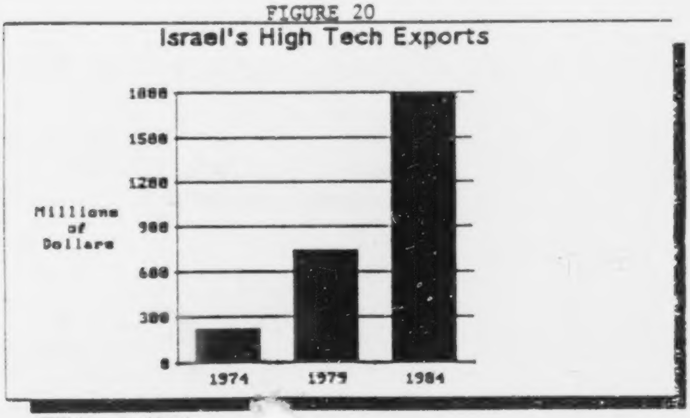
Even in recent years, Israel's record has been impressive. Since 1970, its exports have grown even more rapidly than those of Japan (See Figure 19), and export growth has been particularly dynamic in high technology goods (See Figure 20). Critics, and even friends, are often surprised to learn that Israel exports more per capita than Japan does. (See Figure 21).

FIGURE 19



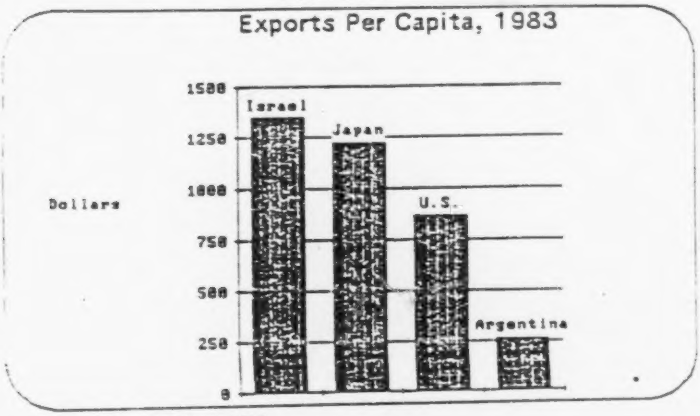
SOURCE: The World Bank.

FIGURE 20



SOURCE: Government of Israel.

FIGURE 21



Exports Per Capita, 1983

SOURCE: International Monetary Fund.

Israel also has a record of accomplishing major social changes when they are vital for national security and economic growth. Indeed, adaptability has been a necessity to survive in a nation whose Jewish population has increased sixfold in less than forty years.

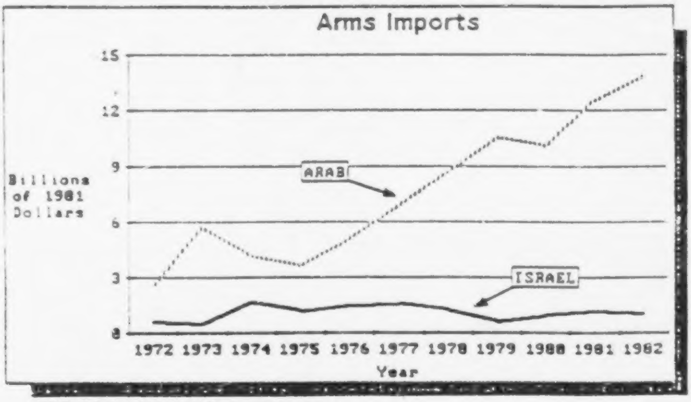
Today, such a basic social change is underway, in the shift from government-owned enterprises to the private sector (See Figure 15). The great majority of new jobs created over the past five years has been in the private sector, and the gap between growth in the private sector and that in the public sector continues to widen. There is a new consensus in Israel that the Government must play a key role in bringing about economic reform, but the engine of progress for the future of the economy is in the private sector.

U.S. assistance at this time is essential for several reasons: (1) to ensure that cuts undertaken to strengthen the economy do not weaken Israel's defense and undermine its deterrent; (2) to help manage the debt burden and reserves so that the recovery plan is not capsized by financial disturbances; and (3) to offer the people of Israel a ray of hope for the future, to help them accept the sacrifices that are necessary today.

The increase that the President has requested in the Foreign Military Sales (FMS) account is essential to finance the purchase of U.S. equipment to offset the enormous quantities of arms flowing to the rejectionist Arab states from the Soviet Union and other countries. Arab arms imports have increased 700% since 1972, and today the world's four largest importers of arms are all Arab countries (Libya, Syria, Saudi Arabia and Iraq). Israel has not kept pace with this increase. In 1972, seven Arab countries outspent Israel on arms imports by a margin of four to one; today, they outspend Israel by more than fifteen to one. (See Figure 22).

Israel cannot and should not keep up one-for-one with this astronomical pace of force-building. But it also cannot afford to stand still. The increase that President Reagan has recommended is the minimum necessary to maintain Israel's qualitative edge to ensure its security.

FIGURE 22



SOURCE: U.S. Arms Control and Disarmament Agency.

Assistance in the form of Economic Support Funds (ESF) is essential to help manage the debt burden and offer the people of Israel a ray of hope that their sacrifices for the economic recovery will lead to a better future. As indicated earlier, Israel's debt service to the United States government this year is about $1 billion, triple the amount of a decade ago. Truthfully, the greater part of the ESF being requested, will never leave the U.S. Treasury because it will, in effect, return as interest and principal payments on past loans. The remainder, which will be available to Israel, is considerably less than what would be required merely to offset the added expense Israel faces to pay Egypt for oil from the Sinai. In other words, while the overall aid program is large, it is, in perspective, a frugal and even austere package.

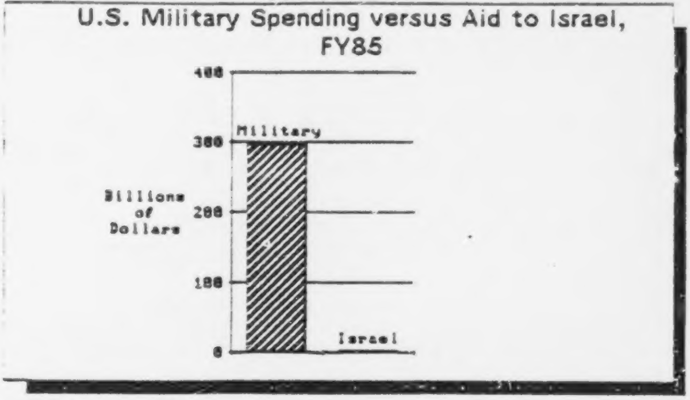
Israel is also requesting supplemental assistance for FY '85. This is an essential component to help Israel through the current crisis. I know the Administration and the Congress are supportive of emergency assistance at this critical time. This important subcommittee will play a key role in setting an appropriate level.

CONCLUSION

The sums that the United States spends on aid to Israel are substantial in an absolute sense, but in comparative perspective aid to Israel is one of the least expensive and most effective national security expenditures our country makes. (See Figure 23).

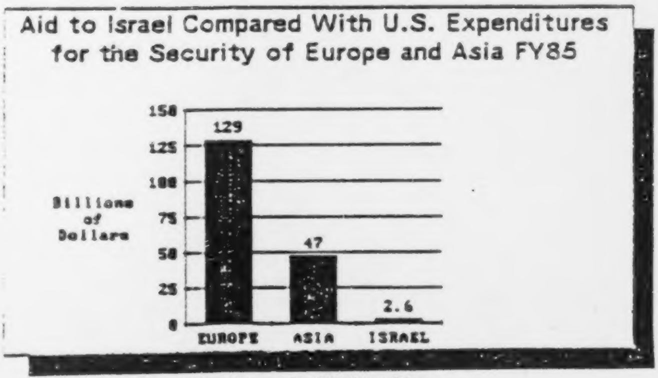
In FY 1985 for example, we are spending $2.6 billion on aid to Israel, but U.S. expenditures in support of European

FIGURE 23



SOURCE: Department of Defense.

FIGURE 24



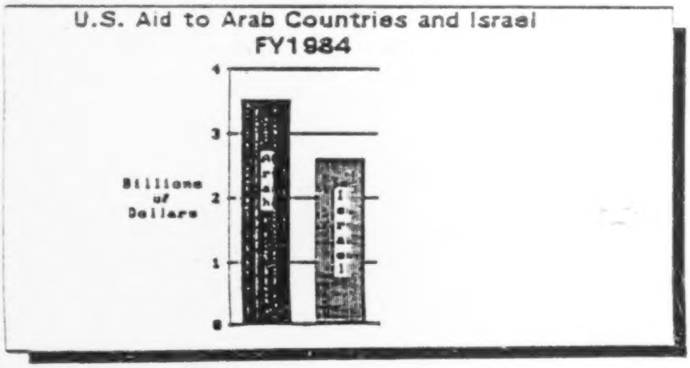
SOURCE: Ravenal, Earl C., Defining Defense: The 1985 Military Budget.

security are estimated by the New York Times to be $129 billion, and our expenditures for the security of Japan and the countries of East Asia are $47 billion. In this perspective, we spend 50 times as much on Europe, and 18 times as much on Japan and Korea, as we do on Israel. (See Figure 24).

Put another way, contained in the U.S. defense budget is an average of $9.9 billion to support the security of each of the 13 European members of NATO, and $7.8 billion to support the security of each of our six allies in East Asia. While it is difficult exactly to compare expenditures in the foreign aid programs with those that happen to fall within the defense budget, these broad comparisons suggest that our assistance to Israel is actually less than a third as costly as the average amount we spend on other allies. And unlike other allies, Israel has never asked that American soldiers participate in its defense.

Israel is a democracy, and our one reliable ally in the Middle East. It is a willing partner in the peace process, and a country that shares many of the goals and values that are important to Americans. It is also an ally in trouble, a friend asking for our help. (See Figure 25).

FIGURE 25



SOURCE: Congressional Research Service.

It has a plan to get back on its feet, but needs a special effort on our part during the transitional period. Israel's economy is the foundation of its defense capability, and for this reason, the United States has a vital interest in extending the assistance needed to keep Israel strong.

Senator BOSCHWITZ. If there are no other comments the hearing is adjourned.

[Additional questions and answers follow:]

STATE DEPARTMENT'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED BY SENATOR HELMS

Question 1. President Reagan has stated that the U.S. Government does not consider the settlements in Judea and Samaria as—and I quote—"illegal." Setting aside policy questions, does the U.S. Government still regard the settlements as "not illegal"?

Answer. As stated in the President's September 1, 1982 initiative, we believe that further settlement activity is in no way necessary for Israel's security and only diminishes the confidence of the Arabs that a solution to the Palestinian problem can be freely and fairly negotiated. The focus should be on this key point. We do not believe any fruitful purpose is served by debating the issue of whether the settlements are legal or illegal when they are clearly an obstacle to peace.

Question 2. On June 14, 1984, then Assistant Secretary of State Tapley Bennett wrote to me as follows: "We will not support efforts to deny Jews the opportunity to live in the West bank and Gaza under the duly constituted government there. We believe that those positions are consistent with Israel's legitimate security interests as well as the legitimate rights of the Palestinian people." Is that still the policy of the U.S. Government?

Answer. Assistant Secretary Bennett stated in his June 14, 1984 letter that "With regard to the future of the West Bank and Gaza, it is the President's belief that the Palestinian problem cannot be resolved through Israeli sovereignty or permanent control over these areas. Accordingly, we will not support such a solution when the final status of these territories is negotiated. We will also not support the formation of an independent Palestinian state. The preference we will pursue is self-government by the Palestinians of the West Bank and Gaza in association with Jordan. We will not support efforts to deny Jews the opportunity to live in the West Bank and Gaza under the duly constituted government there. We believe that these positions are consistent with Israel's legitimate security interests as well as the legitimate rights of the Palestinian people. It is our view that this approach offers the best chance for achieving a just, durable and lasting peace." That remains our policy.

Question 3. It is my understanding that when foreign assistance funds are disbursed to Israel, the U.S. Government requires Israel to sign a stipulation that none of the funds will be used for settlements on the West Bank. Is that correct? Can you supply me with a copy of the stipulation?

Answer. It is the policy of the U.S. Government to require that foreign assistance funds provided Israel shall only be used in the geographic areas which were subject to the Government of Israel's administration prior to June 5, 1967, and Congress has traditionally made this clear in its consideration of legislation. This requirement is normally written into agreements between the United States and Israel which disburse the funds. Copies of illustrative agreements are attached.

DETERMINATION UNDER SECTION 607 OF FOR FOREIGN ASSISTANCE ACT OF 1961

1. The Israel Emergency Water Authority has requested the Agency for International Development to furnish to it for use in its programs certain United States Government-owned domestic and foreign excess property. Pursuant to Delegation of Authority No. 41, I hereby determine that it is consistent with and in furtherance of the purpose of Part I of the Foreign Assistance Act of 1961, as amended, and within the limitations of that Act for AID to furnish United States Government-owned domestic and foreign excess property included within the Federal Supply Groups described below, not to exceed a total of $1,500,000 measured in terms of original acquisition cost, to the Israel Emergency Water Authority.

   This property will be used by the Authority to upgrade, operate and maintain its water pumping stations. It will not be used in the private sector, either during or after the period of accountability, as support of public safety activities or by the military sector. During the period of accountability, the property will be used within the geographic area which was subject to Government of Israel administration prior to June 5, 1967 (the "Green Line"). Subsequent to the period of accountability, the Authority will not dispose of excess property across the "Green Line" directly and will make a good faith effort not to transfer such property to anyone or any organization which it believes is acquiring the property for use or for transfer for use across the "Green Line."

Federal Supply Group	Description
28	Engines, Turbines and Components
29	Engine Accessories
30	Mechanical Power Transmission Equipment
43	Pumps and Compressors
46	Water Purification and Sewage Treatment Equipment
47	Pipe Tubing Hose and Fittings
61	Electric Wire and Power and Distribution Equipment

2. This determination is conditional upon the accomplishment, prior to shipment or transfer of any express property, of the determinations required by Section 607(c) of the Foreign Assistance Act of 1961, as amended.

3. This determination will be effective until December 31, 1985 unless sooner terminated by AID.

4. Transfer of excess property under this determination will be in accordance with the terms and conditions of the related transfer/trust fund agreement letter to the Israel Emergency Water Authority.

5. Excess property furnished under this determination will be Section 608 domestic and foreign excess.

6. All transfers of Section 608 domestic and foreign excess will be effected without charge as to the value of the property. However, the Israel Emergency Water Authority will pay to AID the applicable AID service charge and AID outshipment charge.

Assistant Administrator
Bureau for Near East

A.I.D. Grant No: 271-K-620

AGREEMENT

BETWEEN

THE GOVERNMENT OF ISRAEL

AND

THE GOVERNMENT OF THE UNITED STATES OF AMERICA

ACTING THROUGH

THE AGENCY FOR INTERNATIONAL DEVELOPMENT

Dated: October 31, 1984

CONFORMED COPY

____
Steven J. Freundlich
Project Officer

____
DATE

Agreement, dated October 21, 1984 between the Government of Israel ("Israel") and the Government of the United States of America, acting through the Agency for International Development ("A.I.D."), together referred to as the "Parties."

ARTICLE I

The Grant

To support the economic and political stability of Israel, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant to Israel under the terms of this Agreement not to exceed One Billion Two Hundred Million United States Dollars ($1,200,000,000) (the "Grant").

ARTICLE II

Conditions Precedent to Disbursement

SECTION 2.1. Conditions Precedent to Disbursement

Prior to the disbursement of the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, Israel will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., a statement of the name of the person holding or acting in the office specified in Section 6.2, and of any additional representatives, together with a specimen signature of each person specified in such section.

SECTION 2.2. Notification

When A.I.D. has determined that the conditions precedent specified in Section 2.1 have been met, it will promptly notify Israel.

SECTION 2.3. Terminal Dates for Conditions Precedent

If all of the conditions specified in Section 2.1 have not been met within ninety (90) days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Israel.

ARTICLE III

Disbursement

SECTION 3.1. Disbursement of the Grant

After satisfaction of the conditions precedent, A.I.D. will deposit in a bank designated by Israel the sum of One Billion Two Hundred Million United States Dollars ($1,200,000,000).

SECTION 3.2. Date of Disbursement

Disbursement by A.I.D. will be deemed to occur on the date A.I.D. makes deposit to the bank designated by Israel in accordance with Section 3.1.

ARTICLE IV

Covenant

Section 4.1 Binational Foundations

Israel agrees to contribute not less than sixty-five million

United States Dollars ($65,000,000) of this Grant to four existing United States-Israeli binational foundations, organized for industrial research and development, science, agricultural research and education, for the purpose of capitalizing endowments in such foundations. The endowments shall be established on terms and conditions, including interest rates and Israeli matching funds, mutually acceptable to Israel and A.I.D. Israel shall provide A.I.D. a written report providing evidence of the capitalization of the endowments, including the terms and conditions thereof, within 6 months of this agreement. Should Israel fail to comply with this covenant, A.I.D., at its option, may require Israel to refund to A.I.D. all or part of the amount provided hereunder for the binational foundations in U.S. dollars within sixty (60) days after receipt of a request therefor.

ARTICLE V

Special Covenants

Section 5.1. No Use for Military Purpose

It is the understanding of the Parties that the Grant will not be used for financing military requirements of any kind, including the procurement of commodities or services for military purposes.

SECTION 5.2. Use Only Within Pre-1967 Boundaries

Program uses of the Grant shall be restricted to the geographic areas which were subject to the Government of Israel's administration prior to June 5, 1967.

ARTICLE VI

Miscellaneous

SECTION 6.1. Communications

Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following address:

To Israel: Economic Minister
Embassy of Israel
3514 International Drive, N.W.
Washington, D. C. 20008

To A.I.D.: Director, Office of Project Development
Bureau for Near East
Agency for International Development
Washington, D. C. 20523

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of written notice.

SECTION 6.2. Representatives

For all purposes relevant to this Agreement, Israel will be represented by the individual holding or acting in the office of Economic Minister, Embassy of Israel and A.I.D. will be represented by the individual holding or acting in the office of Director, Office of Project Development, Bureau for Near East, each of whom, by written notice, may designate additional representatives for all purposes.

The names of the representatives of Israel, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 6.3. Amendment

This Agreement may be amended by the execution of written amendments by the authorized representatives of both the Parties.

IN WITNESS WHEREOF, Israel and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

GOVERNMENT OF ISRAEL	UNITED STATES OF AMERICA
By:	By:
Title: Minister (Economic Affairs) Embassy of Israel	Title: Administrator Agency for International Development

Question 4. Is a stipulation restricting use of AID funds for West Bank settlements specifically mandated by law? If so, can you supply the legal citations?

Answer. The stipulation requiring that foreign assistance funds provided to Israel only to be used in the geographic areas which were subject to the Government of Israel's administration prior to June 5, 1967, has been the policy of every Administration since 1967.

[Whereupon, at 12:05 p.m., the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

NAAA
National Association of Arab Americans

WRITTEN TESTIMONY OF JOHN D. LAW, DIRECTOR OF POLICY RESEARCH FOR
THE NATIONAL ASSOCIATION OF ARAB AMERICANS, PRESENTED TO
THE SENATE COMMITTEE ON FOREIGN RELATIONS
MARCH, 1985

The National Association of Arab Americans (NAAA) welcomes this opportunity to present testimony on the Middle East portion of the Administration's fiscal 1986 foreign aid request. As the principal lobbying organization representing the three million Americans of Arab descent, NAAA wants to do whatever it can not only to promote good relations between the United States and the Arab countries of the Middle East, but also to see that US tax dollars are spent in the most effective way for the protection and promotion of US national interests there.

Few would dispute that the aid program is one of the most effective tools that the US can use to protect and promote those interests. It is our view, however, that for a number of years this tool has not been used wisely. One administration after another has failed to use the aid program in a way that would encourage the countries of the Middle East to adopt policies that are in conformity with US foreign policy objectives. In fact, the aid programs have generally been structured and administered in such a manner -- however unwittingly -- as to encourage the opposite to happen.

More specifically, we believe that the huge sums that the US makes available to Israel year after year -- a quarter of all our foreign aid, with the most generous terms received by any country -- have served only to encourage Israel to keep on carrying out policies that it may believe to be in its own interest, but that are by no means in the interests of this country. At the same time, only very modest amounts of aid are being given to Arab nations whose policies conform with the American interest but who need the wherewithal to make those policies viable.

We realize that there are those who argue that the aid programs should not be used as weapons in support of American interests -- that to tell Israel that it will have its aid from the US reduced if it continues to act in contradiction with, or even defiance of, the US national interest, would be a form of "pressure" which no sovereign nation can be expected to tolerate.

This argument seems to convince a lot of people -- who might look at it differently if they understood that it is based on a false premise.

I don't think that I can put this any better than the Honorable George W. Ball, former number-two man at the Department of State, did recently, when he said:

> "It confuses the issue to use the word 'pressure,' because it implies that the subsidy which is being given to Israel by the US is something Israel is absolutely entitled to -- that we're somehow imposing on Israel's rights. The real question, though, is not whether we should use 'pressure' on Israel by reducing aid; it's whether we are prepared, as responsible citizens, to have our money used to subsidize activities that are against our national interests."

It would not be difficult for us to submit hundreds of pages of written testimony to show the extent to which, to use Mr. Ball's phrase, we have subsidized over the years Israeli activities that have been against our national interests -- but those years are just history now. Our main concern is, and should be, with what Israel is doing now -- at a time when the issue of foreign aid authorizations is being considered by your panel.

South Lebanon

Let us first look at the situation in south Lebanon, so that you may judge whether Israeli actions there are conforming with our national interests. At the time of this writing, Israel has just rounded off more than a month of what it calls its "iron fist policy" of reprisal against guerrilla attacks against Israeli soldiers. According to eyewitness accounts by United Nations peacekeeping officials, Red Cross workers, and independent Western journalists, Israeli troops have carried out what can be accurately described as a reign of terror among the civilian population of a large part of south Lebanon, during which scores of Lebanese have been killed. The Israelis have raided dozens of villages inhabited mainly by Shiite Muslims, have ordered people out into the streets, demolished houses, and rounded up and taken away to an unknown fate hundreds of villagers suspected of being guerrillas. During the searches by the soldiers, villagers are often killed -- sometimes by being shot, execution-style, in the head. Others who panic and run when the Israeli troops descend upon the village are killed by soldiers under order to shoot anyone who flees. Still others, caught on the roads with weapons in their cars, are tortured -- as was witnessed on March 3, 1985, by correspondents from the Washington Post and ABC Radio. These same witnesses also saw Israeli soldiers shoot randomly into a car containing a Lebanese family and kill an 11-year-old boy who was one of the passengers. The Israelis have run roughshod over UN peacekeeping troops who have tried to stop them from carrying out some of these excesses.

Following is a description by John Kifner, Lebanon correspondent of The New York Times, of some other kinds of Israeli intimidation carried out in the Shiite villages:

> In some villages, according to local residents, the Israeli troops have ripped up the Koran, the Moslem holy book, in the mosques. At times they have also taken the stores of various kinds of grain the villagers have laid up to carry them through the winter and mixed them together so they cannot be used, villagers said. The grain cannot be replaced in the isloated villages at ths time of year.
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> "They went to the mosque, and first they cut the pages out of the Koran and then they put their boots on it," said Suheila Kiserwani, who fled from the village of Mansouri

> near Tyre with her three small children after an Israeli raid last week.
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> "The Israelis went to each house and searched it," she said. "Where we had made supplies for the winter, they mixed everything together, the corn-flour and the bulgnar and everything. They mixed out things so we don't have it anymore, because it's not like a city where you can go to the store. The people are hungry now."

In the meantime, the entire region still occupied by the Israelis has been put under dawn-to-dusk curfew and has been cut off from the rest of the country -- with Lebanese who attempt to return to their homes after visits to north Lebanon being driven back by shots fired over their heads at "border" crossings (a practice that has resulted in at least one civilian death). Israel has banned Western journalists based in Lebanon from entering the area, even though it has not managed to keep them all out. Even Israeli-based journalists must travel in the south with an Israeli Army escort officer and under guard, and must then subject their dispatches to military censorship. There is apparently a lot going on that the Israelis fear they must hide!

How Do the Israelis Justify All This?

The Israeli government attempts to justify its actions in south Lebanon on the grounds that its soldiers, in the process of making a gradual withdrawal, are being regularly ambushed and killed by guerrillas belonging to Shiite militias. But there are at least two things wrong with that argument.

Firstly, the Israelis who are under attack are virtually all soldiers -- whereas many, if not most, of the Shiites who are being killed, injured or otherwise being made to suffer from deprivation and terror through the Israeli practice of collective punishment are not guerrillas but innocent civilians. Secondly, the reason the Israeli soldiers come under attack in the first place is that they are occupying someone else's country, and being resisted by that country's inhabitants. When President Reagan compared Nicaraguan "contras" the other day to members of the French Resistance during World War II, he might well have also made a comparison between the French resistance fighters and the Shiites of south Lebanon.

The Israelis also argue that the attacks against their troops are unjustifiable because they are in the midst of a planned withdrawal from Lebanon. There are two things wrong with this argument, too. To begin with, if the Israelis really wanted to, they could evacuate all of their troops from Lebanon within 48 hours -- instead of spreading the withdrawal out over several months. Secondly, the three-stage "withdrawal plan" announced by the Israeli government does not, even if taken at face value, call for a full withdrawal of their troops anyway. This is because the third, final phase of the plan provides that security in the southernmost strip of Lebanon along the border with Israel will be put into the hands of an Israeli-sponsored militia. The Lebanese army will not be allowed into that area, and the Israelis will reserve for themselves the right to send in their own troops any time they think the militia force will need a helping hand -- which is sure to be very, very often. What kind of a withdrawal plan is this?

How is Israel's South Lebanon Policy Against the US Interest?

When Israel invaded Lebanon in June 1982, its announced purpose was to crush the Palestinians. But in the process of carrying out this self-appointed mission, it created a whole new set of enemies among the indigenous people of southern Lebanon -- most of them Shiite Muslims. The brutal "iron fist" policy of the past month has served only to intensify the hatred of the Shiite population towards Israel, and for the first time has inspired its leaders to threaten Israel with violence after the Israeli troops have withdrawn across the border.

For example, Daoud Daoud, an official of the Amal organization, generally regarded as "moderate," announced: we can take the national resistance to where Israeli settlements are and destroy houses and inhabitants inside

Israeli territory." Other Shiite leaders told the Washington Post that the crackdown was making them consider taking the war to Israel in order to "make their civilians suffer as they have made ours suffer."

Western diplomats in Beirut and military experts who have studied the growth of Shiite attacks in the last year point to these and other reactions as evidence that Israel's get-tough policy will not break the spirit of the Lebanese Shiites, as Israeli officials have been asserting will happen.

"There seems to be every indication to the contrary," a Western diplomat in Beirut told The New York Times. "I am definitely of the view, as I think we all are, that this is not going to break their spirit, but is going to create something much worse than the Israelis ever had to deal with before."

The upshot of all this is that Israel's policies in south Lebanon could lead in the weeks and months ahead to a sharp increase in the level of fighting in south Lebanon and to an unprecedented outbreak of violence in Israel itself. These events in turn would not only have a dangerously destabilizing effect in Lebanon -- north as well as south -- but could cause incalculable damage to the prospects for an overall peace in the region.

If this is not an Israeli policy that runs counter to the US interest -- and, ironically, even counter to Israel's own -- we don't know what is.

The US Peace Process

We are ready to concede that the present "national unity" government of Prime Minister Shimon Peres speaks about the peace process with a softer voice than its predecessors -- but we are not convinced that there is all that much difference in the substance of what is being said.

It is unlikely that this particular government, had it been in power on September 1, 1982, would have rejected the Reagan peace initiative within the first 24 hours, as the Begin government did. On the other hand, since even the Labor Party program for a settlement on the West Bank does not envisage returning more than about half of that territory, as its spokesmen have often declared, it is most likely that the Reagan initiative would eventually have been turned down -- but the process would have taken longer. In any case, Begin's rejection of the initiative has never been repealed by the Peres government. It still stands. Also still standing is the Begin government's decision to "freeze" setttlement activity in the West Bank, which President Reagan requested Israel to do in order to provide a better atmosphere for negotiations. As part of the deal for the formation of the present coalition, Peres agreed to give the go ahead this year for the construction of six more, which he has done. Although financial problems have acted as a constraint on getting the building of these Jewish settlements under way, existing settlements continue to bring in more people, and the overall settlement population is growing. This was confirmed in a recent report by Israel's Meron Benvenisti, a former deputy mayor of Jerusalem who is widely regarded in Israel as the leading expert on the demography of the West Bank. He reported the current number of settlers at about 42,500 -- a much higher total than had previously been believed.

Despite all this, Prime Minister Peres talks a great deal about his desire for negotiations to settle the future of the West Bank. It's hard to pick up a newspaper these days without finding another story about Mr. Peres's readiness to talk with the Arabs, and to talk "without any preconditions."

The latest note in this theme was sounded by the welcome Mr. Peres gave to Egyptian President Hosni Mubarak's new initiative to get peace talks going between Israel and a delegation composed of Jordanians and Palestinians. "By and large positive," he called it. It soon turned out, though, that Mr. Peres was very much opposed to the first step called for by the initiative: a get-together between a Jordan-Palestinian delegation and the United States.

In an interview with The Washington Post on March 1, Mr. Peres said that "the problem is not to make peace between Jordan and the United States," but between Jordan and Israel, and he added that leaving Israel out of such talks would amount to a new attempt by the Arab side to "convince Washington to commit the United States on behalf of Israel and twist Israel's arm...I said no to this."

Frankly, we find it outrageous that Prime Minister Peres finds something wrong with the idea that an Arab delegation should have talks with the United States. Isn't this the same prime minister who came to Washington with a delegation last fall to talk to the President and other Administration officials? Does he believe that only Israelis have the right to present their point of view to the United States on matters of great moment concerning the Middle East?

We also wonder what Mr. Peres is afraid of. If the rightness of Israel's cause is as unassailable as he apears to think, and if Israel's policies towards Lebanon, the West Bank and the issues of peace and justice in the Middle East are as justified as he says they are, he should have no concern about letting the Arabs put across their own point of view. Is he afraid that if the Arabs and the Administration are left by themselves, the Administration might get a clearer perspective on the policies that Israel has been carrying out in the Middle East -- and come to the conclusion that they are not in the best interests of peace? Besides, isn't Mr. Peres, by objecting to such a meeting, setting a "pre-condition" for his talks with the Arabs?

Mr. Peres's objections to a meeting between a Jordan-Palestinian delegation and the US is outrageous, as we have said, but not really surprising -- since it conforms to the traditional Israeli practice of trying to discourage the establishment of good relations between the US and Arab countries. Like its predecessors, the current Israeli government and its supporters in Washington spend a good deal of time and energy trying to prevent the sale of US weapons to Arab countries that are anxious to defend themselves. To provide a defense capability for these friendly countries --some of whom are situated in areas that the Administration has called strategically "vital" to the United States -- is obviously in the interests of this country. We find it unconscionable that Israel should be working against these interests.

Aid to Israel

Without going into the background of Israel's provocative and unpeaceful actions of the past several years -- such as its brutal and unjustified invasion of Lebanon in 1982 and its annexation of the Golan Heights in contravention of US policy and of international law -- I have presented to you some of the current policies of the country that has asked us to give it nearly twice as much ($5 billion) in 1986 as it has received this year. The good news, from our point of view, is that the Administration's budget proposal is for less than the amount that Israel requested, and that the Administration has also -- and we commend it for this -- deferred a decision on an Israeli request for a supplemental appropriation for 1985 until it is satisfied that Israel is doing all it can to get a grip on its economy. But the bad news is that the Administration's budget proposal for fiscal 1986, despite being under the Israeli request, still adds up to a 15 percent increase in aid to Israel over what it received for fiscal 1985. If this request gains approval, we believe that it will be taken by Israel as an American show of support for the policies it has been following.

We know that upping the aid that is given to Israel is not exactly an unprecedented event -- and we have, in fact, been arguing against such increases in front of this and other subcommittees year after year. We think, though, that this year there are at least two additional reasons why you ought to ponder our arguments very, very carefully.

In the first place, the Israeli aid request comes at a time when we ourselves, in this country, are going through an agonizing period of budget-cutting. Many Americans, and not only Arab-Americans, are resentful of the fact that at a time when they are being asked to make sacrifices -- through proposals involving deep cuts in aid to college students and farmers, an end to the Job Corps program and Small Business Administration, and reductions in the benefits for retired persons -- the government is not insisting that Israel should also make sacrifices when it comes to the funding that it expects to get from US taxpayers.

A second point that we think you should ponder this year is the fact that the increased funds which we are planning to give to Israel are going to a country which has acknowledged that it has grossly mismanaged its economy during the past few years, allowing inflation to get close to quadruple figures and its foreign exchange reserves to drop to all-time lows. This acknowledgement by Israel's leaders is also an indirect admission that they have mismanaged the use of US economic aid funds -- since such funds go into Israel's treasury without being earmarked for specific projects. These funds have allowed Israel the opportunity to maintain a welfare-oriented economy which provides subsidies and inflation-protection for its citizens that are unmatched by few if any other countries in the world.

After the "national unity" government took office, it assured US officials that it would impose an "austerity" program that would get the Israeli economy under control. But in the opinion of many economists in both Israel and the United States, the program has not worked up to now. The current phase of the program, referred to usually as the "package deal," is not getting at the roots of Israel's problem any more than did the three-months freeze on prices and wages which preceded it. Huge government subsidies for most basic commodities, while reduced, remain intact -- even though the consensus is that they are a principal cause of the economic crisis. In addition, Israel's traditional indexation of wages and interest rates to inflation is being allowed to continue -- thus providing a built-in incentive for inflation to grow.

The package deal also totally ignores the contribution of Israel's Central Bank to the crisis. By law, the Central Bank must print enough shekels to cover the country's growing budget deficit, regardless of whether or not the resulting growth in the money supply is consistent with the increase in national output. This inflation generating practice is continuing unabated.

Another missing item in the new package is a full scale devaluation of the shekel to market rates. The shekel is so overvalued that few people are interested in buying israeli exports, helping to cause Israeli hard currency reserves to drop for the second time in a year below the "red-line" -- the mark designated for three months worth of normal imports. This sharp drop in reserves occurred despite the fact that the United States broke precedent last October and sent Israel its entire $1.2 billion of US economic aid in one payment -- instead of spreading it out over the year.

This band-aid approach is expected to have little impact on efforts to reduce Israel's growing budget deficit. The State Department and Israel's own economists last year had specifically recommended that Israel cut between $2 and $3 billion from its budget for its fiscal year 1984-1985 which ends March 31 -- but Israel has not come even close. According to a new disclosure from the Israeli Ministry of Finance, only $200 million has actually been cut from government spending. And considering that the new half-hearted package deal went into effect on February 4, just two months before the expiration of the Israeli fiscal year, the $200 million figure can hardly be expected to grow much.

In our view, this mismanagement of an economy which is kept alive by US funds, along with existence of an Israeli foreign policy that runs counter to US interests, should be enough to warrant a very sharp reduction in US aid to Israel, and even its elimination. Should the Administration and Congress not see fit to go this far, however, it seems to us that the inadequacy of the current Israeli "austerity" program has clearly demonstrated the need for supervision of Israeli reform measures by an outside expert party-- to oblige Israeli leaders to take the hard road instead of succumbing to the dictates of political popularity. So at the very least, if Israel wants additional aid for the coming year, why not tell it to go to the International Monetary Fund?

Directing Israel to the IMF would circumvent many of the problems. Although the Fund was originally established to help countries with short-term balance of payments problems, it has in recent years become increasingly involved in helping countries overcome structural problems in their economies. This is done by conditioning IMF loans on the implementation of sound economic policies.

Turkey, India; Mexico and Brazil have all received IMF assistance and have made remarkable progress in overhauling their troubled economies. Not only have IMF credits resulted in the development of appropriate austerity measures there, but they have also encouraged commercial banks to extend new loans. The IMF "Seal of Approval" that comes with its loans reestablishes the credit-worthingness of borrowers, often enabling them to obtain new commercial bank loans far in excess of the original IMF credit.

The key ingredient in the success of IMF programs is the conditionality feature. IMF experts closely monitor borrowing countries' economic policies and, unlike Congress, are willing to cut off IMF credits when the policies fall victim to political pressures. IMF experts could justifiably insist that Israeli politicians enact reforms that would include eliminating the subsidy and indexation programs, cancelling the costly Lavi project, devaluing the shekel to market rates, and ending the requirement that the Central Bank print enough shekels to cover the budget deficit.

Israel is already experienced in working with the IMF, having borrowed from the Fund three times in the mid-seventies. Israel's current quota of $466 million (its credit line at the IMF), when combined with new commerical bank loans that are sure to follow an IMF-approved austerity program, will be more than sufficient. Working under the constraints of IMF conditionality, Israel may learn some of the lessons it needs for the proper management of US funds. That could at least be a start. At the same time, the money saved by the US could be used to help lower the US budget deficit, instead of encouraging Israel to ignore its own.

Now let us look at aid proposals for some of the Arab countries.

Aid to Egypt

The Administration's request for $2.3 billion in aid represents a meager $100 million increase over the level approved for the current fiscal year, even though Egypt has gone out of its way to promote the Middle East peace process and other US foreign policy objectives. During the last few weeks, Egypt has launched an intense diplomatic offensive to keep alive the chance for peace negotiations among Jordan, Israel and the Palestinians. Egyptian President

Hosni Mubarak has lent his support to the idea of direct negotiations between a joint Palestinian-Jordanian delegation and Israel on the future of the West Bank, dispatching his key political adivsor, Osama Al-Baz, to Jerusalem for talks with Prime Minister Peres.

Egypt has also carried out a number of cooperative ventures with the United States. In August 1983, the US and Egypt conducted the largest joint military exercises ever held in the Middle East. Some 5,000 American troops participated in the ventures. Egypt has also granted the US landing privileges at its naval and air facilities under certain circumstances -- for instance, the United States took advantage of the privileges during special military exercises with Oman. Egypt also provided support for US transhipment of ammunition to Lebanon when the American marines were there, and has cooperated with the US in taking action to deal with threats to Sudan, its southern neighbor.

The case for more aid to Egypt also holds up on economic grounds. Its 47 million people, unfortunately, have one of the lowest standards of living in the Arab world, with a per capita GNP of $690. Israel's four million inhabitants, by contrast, have a per capita GNP of $5,900 -- almost 10 times the Egyptian level. More than half of Egypt's population is illiterate, and the average life expectancy is just 50 years. In Israel, however, 88 percent of the population is literate and the average life expectancy is 73 years, the same as it is in the United States. Despite the glaring difference in the level of economic development between the two countries, the United States is currently sending Egypt $47 in per capita aid, while loading up an affluent Israel with $650 for each man, woman and child.

NAAA would like to see Congress match Egypt's request for $3.15 billion in military and economic aid in 1986. This would raise Egypt's per capital aid from the US by $20 -- a small but psychologically important reward for steadfast support of US foreign policy objectives. The aid increase would also help Egypt to catch up on its interest payments on military loans from the United States. As you may know, Egypt is currently experiencing some economic difficulties that are largely beyond its control. The declining worldwide price of oil has resulted in a sharp drop in Egyptian workers' remittances from OPEC countries. Egypt's own oil revenues have fallen as a result of the price decline. Revenues from the Suez Canal, another major source of hard currency, are also depressed.

Aid to Jordan

Perhaps no other country in the Middle East has done as much as Jordan in the past year to promote US peace efforts in the region. King Hussein, despite strong pressures from some Arab hardliners, has made a strong personal pitch to revive the stalled Middle East peace process.

On February 11, Hussein made a historic announcement that he and PLO chairman Yasser Arafat are ready to engage in negotiations with Israel on the future of the West Bank, based on the principle of peace in exchange for the return of occupied territory. The move was characterized by a senior Administration official as a "milestone," and by a State Department official as the most promising development to emerge from the Middle East in years.

The move was consistent with the King's efforts of earlier years. Despite Israel's abrupt rejection of President Reagan's September 1, 1982 peace initiative, Hussein supported the initiative and worked hard to get other Arab countries to support it, too. At the Palestinian National Council meeting in Amman in November 1984, he called on the PLO to join him in seeking peace with Israel. In his address before the PLO body, he reaffirmed Jordan's commitment to peace negotiations on the basis of UN Resolution 242, a resolution that he has now supported for more than 18 years -- longer than Israel has.

Jordan is an important friend of the United States, politically and strategically, and its population is not much smaller than Israel's. Yet it will receive, at the proposed figure of $177 million, less than one half of one percent of the US aid that Israel wil get. Militarily, it is still seeking to get the equipment and weapons that will allow it to defend itself. On the economic side, Jordan is struggling, with a GNP per capita of only $1,156 -- less than one fifth of Israel's. The world recession -- including the one in the Gulf, where large numbers of emigrant workers, including Jordanians, have lost their jobs -- has taken its toll on the economy. Growth rates have declined in recent years, and the outlook is not good, as population growth rates exceed the number of jobs that are created and as the government has to cut back on its development.

We at NAAA feel very strongly that Administration's proposed economic support of only $20 million to Jordan should be boosted substantially.

Aid to Lebanon

NAAA believes that the Administration's proposed aid levels for fiscal 1986 of $10 million in economic support funds and $10 million in foreign military sales for Lebanon are wholly inadequate.

Never has the regime of President Amin Gemayel been more in need of assistance in it efforts to work out new power-sharing arrangements that will permit the establishment of the unified, sovereign and independent Lebanon that the Administration remains committed to seek.

Essential to President Gemayel's effort to attain stability is that Lebanon's armed forces must be given the opportunity to become strong enough to take control of the country and defend it. But aside from the fact that the sum being proposed for US military aid is very modest in size, the aid is scheduled to be provided in the form of a loan at market rates, instead of at the more concessional rates of interest available. In view of Lebanon's capital-short economy, we believe that the military aid should be provided as grants, as is being done for Israel -- which, for the record, is getting 180 times as much. At the very least, the military aid for Lebanon -- if it is going to take the form of a loan -- should be offered at concessional rates.

Lebanon's debt burden to the United States for military assistance may well reach $200 million by 1995, including interest and principal. NAAA would support congressional efforts to forgive at least a portion of Lebanon's military debt, or to reschedule the payments.

We are equally dissatisfied with the proposal to provide a token $10 million in economic assistance for Lebanon. Both the negligible amount and the terms of this aid are disproportionate to the very real need that exists in the country today. Lebanon has never recovered from the devastation of the civil war and of the massive Israeli invasion of Lebanon in 1982. Today, as Israel carries out its so-called "three-phase withdrawal plan," more destruction is taking place and more lives are being lost. The level of aid should be increased and offered as a grant. True, $73 million remain in the Lebanon "pipeline" -- but these funds remain obligated for specific AID projects or otherwise for gradual drawing down by private voluntary organizations such as UNICEF and the YMCA, which continue to carry out their work despite the harsh conditions of occupation. This pipeline support does not, therefore, provide the type of blanket economic support needed to shore up Lebanon's foundering economy.

In addition, NAAA would urge Congress to support Lebanese requests for assistance in procuring agricultural credits to replenish necessary supplies of food staples such as wheat and other cereals, soya and corn oils.

Finally, NAAA would strongly oppose any efforts to reprogram funds already authorized for Lebanon to any other country or project. Forty million dollars were reprogrammed last year for use in Grenada, and we support Assistant Secretary of State Richard Murphy's expressed hope that this would not happen again.

The West Bank and Gaza

We note the Administration's request for significantly increased aid under the Regional Cooperation section, which includes the West Bank and Gaza. The proposed funding increase for specific use in the occupied territories, however, is only $1 million more than last year and takes on token proportions when compared to the huge amounts granted to the occupying government of Israel.

We applaud the Administration's emphasis on providing economic assistance directly through Private Voluntary Organizations (PVOs) and urge that aid to Palestinian PVOs be increased. American assistance to hard-working Palestinian entrepreneurs will become increasingly important due to the effects of austerity measures in the Israeli budget and the continuing harsh conditions in which Palestinians under occupation are living.

While Secretary of State George P. Shultz has emphasized his desire to seek improvements in the lives of the residents of the occupied territories, achievements to-date remain inadequate. This is largely due to the policies of the Israeli government, which continues its efforts to undermine the growth and productivity of the Palestinian community.

That this is happening was acknowledged by the State Department itself on April 10, 1984, when it announced that although US assistance to the West Bank and Gaza was intended to be "oriented towards activities that will contribute to economic development," it wanted to express its "concern that Israel has not been forthcoming in allowing such activities to go forward." It added that "Israel should be more flexible in permitting Palestinians to undertake economic activity, at their own initiative, to develop local industry."

Meron Benvenisti, the former deputy mayor of Jerusalem, wrote in a report last year that between 1977 and 1984 only 23.1 percent of the industrial expenditures and only 35.6 percent of the agricultural expenditures endorsed by the US Agency for International Development had been approved by Israel. US-funded projects that did not give the Palestinians a stake -- such as public works projects that Israel would otherwise have to pay for itself -- were given ready approval. Thus Israel was diverting US aid from its intended objectives.

This is just one recent aspect of an 18-year-old policy by Israel of stifling Palestinian economic initiatives. Palestinians are denied permission to dig new irrigation wells; discouraged in their attempts to form cooperatives; limited in their planting of trees and vegetables; constrained from selling their produce in Israel; turned down -- or made to wait indefinitely -- when applying for licenses to start up a business project or construct a building; and deprived of adequate credit and money market facilities.

AID and PVOs continue to enumerate cases in which the Israeli government delays or denies clearance "to proceed with individual subprojects, particularly those of a development nature."

A September 1984 report evaluating the AID-funded PVO Development Assistance Program in the West Bank and Gaza (1975-1984) by the International Science and Technology Institute, Inc., made several recommendations on the aid program. The Institute endorsed increases in the size of the assistance program, for the following reasons:

(a) the demand and the need exists, especially during the economic downturn when Arab sources of funding are becoming less available;

(b) the PVO organizations are able and interested in handling expanded programs; and

(c) local Palestinian capability for project management is strong, although more technical assistance in this area should be included in future projects.

The Institute recommended special attention for increased, carefully implemented programs in Gaza, where stricter controls by the Israeli authorities make creative programming and project approval more difficult. Currently, one of the most successfully operated PVOs in Gaza is the Sun Center School for Mentally Handicapped Children, run by Dr. Hatem Abu Ghazaleh, which is a model for Palestinian PVOs.

The small aid program funding economic and social development in the West Bank and Gaza has perhaps the highest impact of any American aid program anywhere in the world. AID has praised projects undertaken by PVOs as being "well designed and implemented."

AID programs are designed to foster a greater sense of self reliance and economic independence among recipients. The Administration's increasing focus on aid to the occupied territories will begin to provide the essential tools for economic development and self-determination of the local population.

Aid to Morocco

Although NAAA welcomes the Administration's continued support for Morocco, we do not believe its FY 86 $138 million request is sufficient to promote American interests there. For one thing, the request represents a $12 million reduction from the FY 1984 level. For another, it does not take into account Morocco's extenuating economic circumstances. The North African country is currently experiencing some particularly hard times. A long, severe drought and plummeting world prices for phosphate, Morocco's principal export, has sent the economy into a tailspin. The standard of living in Morocco is now declining. When one considers that almost half of the 22 million population lives below the poverty line, this is particularly disturbing.

King Hassan has long been a reliable American ally -- a strong supporter of the Middle East peace process in general and the Reagan peace initiative in particular. Morocco paved the way for Egypt's return to the Islamic Conference and permits the Voice of America to operate a transmitter in Tangier. On military matters, Morocco is cooperative with the United States. Our country has access to Moroccan air fields and ports, has conducted joint military exercises with Morocco, and has a joint military commission to look into further cooperative ventures.

NAAA believes that a boost in aid to Morocco is necessary to assist the country in its efforts to cope with its economic difficulties and to demonstrate American appreciation for its support of US objectives.

Aid to Tunisia

The Administration's FY 86 $96 million request for Tunisia is insufficient for the promotion of US objectives there. Even though Tunisia's needs have increased over the last couple of years, the Administration's request represents a 25 percent reduction from the level approved by Congress in FY 84. Tunisia's seven million people have a per capita income that averages just $1,300. Nearly one in three Tunisian workers is unemployed.

And according to Western economic analysts, the worst is yet to come for Tunisia. Europe, which in years past has served as a safety valve for Tunisia's unemployed, is no longer willing to continue that role. With Portugal's and Spain's impending entry into the European Economic Community, Tunisia at best can hope only to maintain its level of export to Europe. Furthermore, Tunisia by 1986-1987 is expected to become a net oil importer, further draining its already scarce hard currency reserves.

Tunisia has been a friend of the United States since it gained independence in 1956, often using its influence in international bodies to moderate the views of others. During the hostage crisis for example, Tunisia cast the deciding vote in the UN Security Council for sanctions against Iran. In the Arab League, Tunisia has been a consistent force of moderation. On military matters, Tunisia has been receptive to US initiatives. The Sixth Fleet enjoys regular access to Tunisian ports. The United States and Tunisia have established a joint military commission, and Tunisian officials have shown a desire for heightened military cooperation.

More US assistance to Tunisia would enhance its economic stability and defense capabilities, enabling it to continue to support US foreign policy objectives.

Aid to Sudan

We support the Administration's request for $253 million in aid to Sudan during the 1986 fiscal year.

Some of the enormous economic problems that Sudan is now facing are not of its own making. Faced with a severe drought of its own, Sudan has taken in more than 1.5 million refugees fleeing drought, famine and war in neighboring countries. These have helped push the national debt close to $9 billion, far more than the country's GNP. Debt service now outstrips Sudan's foreign exchange earnings.

Although the US, along with the IMF, has suspended economic aid to Khartoum until a plan can be worked out for debt rescheduling, US food aid continues. We strongly urge that US food shipments, which are both for the Sudanese and the refugees, be increased well beyond the $39 million worth allocated so far.

Aid to Oman

NAAA commends the Administration for requesting that aid to Oman be increased in FY 86 to $78 million from its current level of $60 million. Oman's geographic location and willingness to cooperate with the United States make it deserving of this increase. Over half of the West's oil imports pass through the Strait of Hormuz via shipping channels that are inside Omani waters. Oman has also granted the United States limited peacetime and extensive emergency access to its military facilities. In fact, Oman is the only Gulf country that is openly committed to an American military presence in the region.

SECURITY AND DEVELOPMENT ASSISTANCE (EAST ASIAN AND PACIFIC AFFAIRS)

THURSDAY, MARCH 21, 1985

United States Senate,
Subcommittee on East Asian
and Pacific Affairs of the
Committee on Foreign Relations,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:45 p.m., in room SD-419, Dirksen Senate Office Building, Hon. Frank H. Murkowski (chairman of the subcommittee) presiding.

Present: Senators Murkowski, Evans, Pell, Cranston, and Dodd.

Senator Murkowski. I call to order this hearing of the Foreign Relations Committee's Subcommittee on East Asian and Pacific Affairs. I want to welcome my colleagues, Senator Pell, the minority ranking member of the Foreign Relations Committee, and Senator Evans.

I believe we will have some of our other colleagues joining us before the balance of this hearing is over.

Our purpose today is to examine the administration's proposal for military and economic assistance to the East Asian and Pacific region. We have a good number of allies and friends in the area. It is the fastest growing in the world and the most productive.

The United States has a vital interest there. Our security assistance programs, be they for military sales credits or for development assistance or for Public Law 480 food purchases, are important instruments of U.S. policy in the region. Certainly two of the countries, the Republic of Korea and Thailand, are front line states.

Our assistance programs help these two allies to maintain their capability to deal with serious potential threats to their security.

I wish to underline the importance of maintaining U.S. commitments to these two allies. In recent months, Thailand has been subjected to repeated incursions across its borders by Vietnamese military forces. Thai citizens have been killed, and border areas have been disrupted by these attacks.

However, I am pleased to note that the administration has reacted promptly by expediting the shipment of military equipment already ordered by Thailand. Our quick reaction underscores U.S. determination to stand by that country.

The administration's proposals for assistance to the Philippines are among the most important worldwide in terms of U.S. national interests. I need not describe in detail here the importance of the Republic of the Philippines.

I would like to make it plain for the record that I am not referring uniquely to the importance of the U.S. bases at Clark and Subic. Significant as these bases are from our strategic and operational point of view, it would be a grave mistake to conceive of a U.S. relationship with the Philippines that was based strictly in terms of maintaining access to these military bases.

What really counts for the United States is the relationship with and the obligation to the Filipino people and the nation of the Philippines. The ultimate viability of United States-Philippine relations lies in the historic, deep, and genuine understanding between our two peoples and our two countries. We share many common views.

U.S. assistance programs are designed to help the Philippines as a country and not any particular government nor any particular political group or person.

In addition, it is not our objective to burden countries such as the Philippines with increased indebtedness. I would hope to hear a reaffirmation of these points from the administration witnesses.

Last year the committee made it clear that if the United States is to play a helpful role in assisting the Philippines in its present crisis, then those persons responsible for the assassination of former Senator Aquino must be identified and brought to justice by the Government of the Philippines.

Since that position was enunciated, the Agrava Board has concluded a painstaking, thorough investigation into the Aquino murder. The majority opinion of that report arrived at conclusions which have become a basis for prosecutory action.

The Agrava Board is to be applauded for its forthright report and majority recommendations. The trials of the persons accused in the murder are still underway. This committee remains deeply concerned with the Aquino affair, and will take into account the final resolution of this matter as we continue to work with the administration on assistance programs for the Philippines.

We are disappointed that the court has been unable to deliver various witnesses, and we are watching that situation with growing concern.

Before I introduce the administration witnesses today, I must say that I am a bit in a quandary over the lack of policy established by the administration in the whole foreign assistance process.

I personally have not made a decision on what action I intend to take in the Pacific Rim area and the countries in my area of responsibility, but I feel it mandatory to present to the chairman of the full committee some details and some recommendations on the inconsistencies in evidence in the manner in which we handle our foreign assistance.

I was interested to note as a consequence of some investigation by my staff of approximately $17 billion worth of outstanding loans that have been made for a long time. These loans for the most part bear a government guarantee.

The proposal by the administration to zero up the existing reserve account or account for bad debts or past-due payments is not in the budget this year. This had been previously itemized as an annual appropriation which gave the Congress the oversight on each given year as to just what these losses might be.

The suggestion of the administration currently is to zero it out. Obviously, it is a budget reduction of substance, and by zeroing it out when there is a need to go in and pay or meet obligations under the guarantee, one would simply go down to OMB and withdraw the money from the U.S. Treasury. I find that an irresponsible fiscal policy, and I oppose it very strongly.

In addition, I have examined across the board the policies associated with concessional interest rates, where in 1985 for the first time we instituted a concessional rate of 5 percent with no firm policy guidelines.

I am not being critical of the administration in the manner in which they have attempted to work on this problem. I am more critical of Congress for not meeting its responsibility and indeed indicating what guidelines the administration should work under in establishing concessional rates.

There has been a deterioration of the repayment program which defies all logic. We have moved from a market rate structure indicating paybacks of 5-year grace, 7-year term, which is basically a 12-year repayment schedule, to one where there is a 10-year grace period and a 20-year repayment, which means that you are looking at basically a 30-year amortization. I find this most extraordinary.

I think these indicate the necessity of an oversight on the entire process involved in foreign assistance. We are looking currently at a figure that I have been finally able to add up in the area of foreign assistance this year, and it is somewhere between $9 and $10 billion.

As someone once said, one of these days we are going to be talking about real money here. It seems to be a hodgepodge of well-meaning efforts. Again, I do not attempt to be critical. I am critical only that the policies have not been established.

I know we are here today to discuss the specifics of the Philippines and the East Asian Assistance Program, but I am inclined to believe that before anything further comes before my subcommittee for markup, we will address at my level and, of course, with the support of my colleagues and permission of the chairman, the matter of uniform policy in this entire area.

The time I have spent has led only to further questions instead of finding reasonable and responsible answers.

Mr. Wolfowitz, I do not want you to misunderstand my frustration with policy to be anything in a negative aspect as to why you are here today. You are not responsible for that policy. You have to work with that policy, and I commend you for your patience.

However, I do want to recognize my colleagues for opening statements. Let me first introduce Mr. Paul D. Wolfowitz, Assistant Secretary for East Asian and Pacific Affairs of the Department of State.

He is accompanied by Mr. James A. Kelly, Deputy Assistant Secretary for East Asian and Pacific Affairs, Bureau of International Security Affairs, Department of Defense, and Mr. Charles W. Greenleaf, Jr., Assistant Administrator, Bureau for Asia, U.S. Agency for International Development.

I would call on Senator Pell, the ranking minority member of the Foreign Relations Committee, at this time.

Senator PELL. Thank you very much, Mr. Chairman. I must say I agree with you about your concern on the way these decisions on concessional rates are arrived at. I will add, though, that the actual markup will be at the full committee level.

I would also commend you very much on your thought that relations with the Philippines should not be just through the prism of the bases we have there, but more with an eye to the political viability of the Government and its democratic roots.

Also, I will ask unanimous consent to have inserted into the record an article from the Wall Street Journal that points out in a remarkable way that the domino theory simply did not apply when we withdrew from Vietnam.

It applied in a very small way in the immediate neighborhood of Cambodia and Laos, but what happened in fact was that the countries in that general area, the so-called ASEAN countries, have now become a large market for the United States, and are the most viable economic grouping going, I believe, in the hemisphere at this time, with a high rate of GNP increase.

And we should bear in mind that because one country goes Communist, it does not mean that the area will go. It has been in the Far East just the opposite that has been shown, as I believe this article well demonstrates.

Thank you.

Senator MURKOWSKI. Thank you, Senator Pell. The statement from the Wall Street Journal will be entered into the record in its entirety.

[The article referred to follows:]

[From the Wall Street Journal, Mar. 14, 1985]

OF THE ASIAN DOMINOES THAT HAVEN'T FALLEN, SEVERAL ARE THRIVING

THE WAR PUMPED IN MONEY, AND TRADE BRINGS MORE FOR THE ASEAN NATIONS

(By James P. Sterba and Lee Lescaze)

By April 7, 1954, communism looked to many in the West like an expanding sea. The Soviet Union was consolidating its grip on Eastern Europe. China had been lost to Mao Tse-tung's communists, and only a bloody international "police action" had stopped the "Red hordes" from swallowing up the entire Korean peninsula. Communist insurgencies were budding throughout Southeast Asia, and Vietnamese communists were just one month away from demolishing the French at Dien Bien Phu.

"You have a row of dominoes set up," President Eisenhower said that day. "You knock over the first one, and what will happen to the last one is the certainty that it will go over very quickly." If Indochina fell to the communists, Burma would fall. Then Thailand, the Malay Peninsula and Indonesia.

It took 21 years for the Indochina domino to topple over. In 1975, South Vietnam, Laos and Cambodia fell. But in the 10 years since then, the other dominoes haven't fallen.

In fact, although Burma remains in sleepy isolation and the Philippines is in trouble, the other nations of Southeast Asia have blossomed into the developing world's most vibrant economic region.

"It would be hard to pick an area of greater opportunity in the world," says U.S. Trade Representative William Brock.

The dominoes had help from disparate quarters. The U.S. war effort—despite its ultimate failure—pumped billions of dollars into the region and provided what Asian leaders now call "breathing room" for their fledging post-colonial governments to shake down. Japan, whose oil lifeline depends on a stable Southeast Asia, fueled the region's economies with trade and investments.

Sino-U.S. rapprochement meant that the region could be friends with both Peking and Washington. The Sino-Vietnamese rift led Peking to cut off material and propaganda support to local insurgents, all but repudiating them. And postwar Indochina became everybody's bad example.

Through the 1970s, the economies of noncommunist dominoes grew at an inflation-adjusted average of 7% annually. Universities, agricultural extension services, public facilities and a new generation of educated young people matured.

VIBRANT PACIFIC TRADE

Along with Japan, South Korea, Taiwan and Hong Kong, the six members of the Association of Southeast Asian Nations (ASEAN)—Indonesia, Malaysia, Thailand, Singapore, the Philippines and Brunei—have helped shift the center of gravity for world trade from the Atlantic to the Pacific. By 1980, East Asia had replaced Western Europe as America's biggest trading region. In 1983, transpacific trade exceeded transatlantic trade by $30 billion. And leaders of the region began talking about a coming economic leap that would propel them into an "Asian century."

With a combined population of 287 million and gross national products totaling more than $200 billion, the six ASEAN states have become America's fifth-biggest trading partner. Mr. Brock says this commerce has enjoyed "the highest rate of growth of any trading relationship in the world." Two-way trade reached $25.6 billion last year.

While capitalism flourished, communism flopped. Fraternity between Asian communist nations shattered in a remarkable display of political fratricide. The ASEAN nations had a ringside seat.

The other dominoes didn't fall, says Singapore's Prime Minister Lee Kuan Yew, because "Vietnam changed the rules."

MIGHT HAVE BEENS

"The domino theory rested on the premise that communists cooperate with each other to bring other states into their orbit," he says. "Had the Vietnamese, whatever their differences with China, cooperated and conspired with the Chinese, the Cambodians and Laotians to help the Thai communists, then by 1980 Thailand could have been in a perilous position."

Thailand faced the region's worst insurgency when the Vietnam War ended. The Thai Communist Party (CPT) had grown from about 1,000 members in 1960 to more than 11,000 armed cadre by 1976. Although the Vietnamese had provided some training and sanctuary, the CPT was allied with Peking and got the bulk of its training and support from China.

By 1979, it had collapsed, a victim of the Sino-Vietnamese rift. After 17 years of transmitting the voice of the Thai revolution from Peking via a relay station in Yunnan Province, the Chinese stopped broadcast that July. Lured by a hightly successful amnesty program offering them financial incentives, CPT members poured out of the jungles. Hundreds of exiles returned from China.

Though traumatic, the flood of Laotian and Cambodian refugees into Thailand was a great help to the government's counterinsurgency operations, says Gen. Saiyud Kerdphal, who headed them for 20 years before retiring in 1983.

"I used to go to the villages in the northeast and tell people what communism would bring," he says. "After the refugees came, I would go up country, and the people would tell me about the communists. They had learned."

ASEAN leaders and American officials disagree among themselves over whether Vietnam still has designs on northeast Thailand. Hanoi wants the entire Mekong River basin, some argue. With an estimated 160,000 Vietnamese troops now occupying neighboring Cambodia and 30,000 more Vietnamese soldiers in Laos, Thailand has became what one Washington official refers to as ASEAN's "cork in the bottle."

But Kukrit Pramoj, who as Thai prime minister in 1975 moved to restore friendly relations with Peking and Hanoi and to remove 27,000 U.S. troops from Thai territory, says he never believed in the domino theory.

"The Vietnamese want to re-create French Indochina, and with that they have their hands quite full," says Mr. Kukrit.

AFTER THE WAR

Although ASEAN was formed in 1967 as an economic organization, it didn't amount to much until South Vietnam fell. Those were nervous days for the region when ASEAN convened its first summit meeting in February 1976 at Bali to discuss how gun-shy America seemed to be in withdrawing from the region and to debate the postwar intentions of Vietnam.

The Bangkok Post suggested that Vietnam be invited to join ASEAN. No invitation was forthcoming, but the possibility of future membership was not foreclosed. "There was a willingness to relook at everything," says Lee Kuan Yew.

Vietnam's southern neighbors offered aid and trade.

Thailand offered an initial $5 million in development credits. Malaysia offered help in restoring Vietnam's rubber and palm-oil plantations. Indonesia held out an aid package. Singapore even dispatched experts to try to get Vietnam's garment factories going again.

WORRIED ABOUT WASHINGTON

At the same time, ASEAN leaders kept asking whether Washington had really turned its back on Southeast Asia. U.S. aid levels were falling. Thailand, for example, was cut to $7.5 million in fiscal 1978, before the Carter administration increased assistance to $21.6 million the following year. A worried Indonesian President Suharto called in U.S. Ambassador David Newsome after the 1976 election to urge that President-elect Carter include a statement of support for the region of his inaugural address.

Singapore's Deputy Prime Minister S. Rajaratnam recalls that while everyone rushed to aid Hanoi, "the Vietnamese assumed all these chaps had come out of a guilt complex and that they wanted to do atonement. So, when they started talking about investments and profits, the Vietnamese said, 'No, that's exploitation. You owe this to us.' So, the whole thing collapsed."

Lee Kuan Yew says the Vietnamese "had been fighting for so long that they had forgotten the graces of peace."

ASEAN's leaders cite Vietnamese hubris as a major contributor to their political cohesion. An early example came at the nonaligned conference in Sri Lanka in August 1976. It was Vietnam's first postwar international gathering.

VIETNAMESE 'DUPLICITY'

"They were parading around expecting ASEAN and other smaller countries to be trembling before them," says Mr. Rajaratnam.

The pinnacle of Vietnamese duplicity, ASEAN leaders say, came in the fall of 1978, starting with Premier Pham Van Dong's September and October tour of the ASEAN countries. In Bangkok, he pledged that Hanoi would never aid Thai communist insurgents. In Manila, he said conditions were at hand for a regional zone of peace.

In Kuala Lumpur, he placed a wreath at Malaysia's national monument to those who died fighting Malay Communist insurgents. In Jakarta, he declared that Vietnam would dedicate itself to peaceful economic development. In Singapore, he promised that Vietnam's desire for friendship would be matched by peaceful deeds.

ASEAN's leaders at first seemed genuinely heartened by all these overtures.

But within a month, in what amounted to a kick in ASEAN's teeth, Vietnam signed a 20-year friendship treaty with the Soviets that called for mutual defense. And, a month after that, Vietnam invaded Cambodia.

MISREADING REACTION

The Vietnamese had become convinced that the Poi Pot regime's reputation was so appalling that the world might applaud, or at least quickly forget, their invasion, says Patrick Honey, a British scholar on Vietnam.

In fact, when the U.N. Security Council convened in January 1979, Ha Van Lau, Vietnam's representative, was so confident that the told Ambassador Tommy Koh of Singapore that ASEAN shouldn't bother with the Cambodian issue. "In two weeks, the world will have forgotten the Cambodian problem," Mr. Koh remembers being told.

But ASEAN wouldn't let the world forget. Every year, by increasing margins, the U.N. General Assembly has voted to deny recognition of the Hanoi-installed regime in Cambodia.

China's post-Mao confessionals also helped take pressure off the dominoes. The revelations of China's failures weren't specifically aimed at the developing world, but the message got across. "Most people are aware that communism is a failure, and the biggest factor is China," says Singapore's Mr. Rajaratnam.

For all its successes, ASEAN hasn't been problem-free. Malaysian Prime Minister Mahathir Mohamad was the most recent leader to complain that economic cooperation has lagged. Instead of complementing each other, ASEAN states too often produce competing products.

ASEAN has presented a united front on the Cambodia issue at the U.N., but the joint policy (which is in lock step with China's) is more enthusiastically supported by Thailand and Singapore than by Malaysia and Indonesia.

Indonesia and Malaysia see a greater threat from China than from Vietnam.

A Malaysian official worries that China will be given a veto over any Cambodian settlement. Further, the Malaysians and Indonesians fear that the U.S.-China friendship coupled with Washington's distractions elsewhere in the world might lead the U.S. to yield to China too much sway in Southeast Asia.

DISTRUSTING CHINA

Finally, Indonesia and Malaysia continue to doubt the permanence of Peking's new path.

The Malaysian government still complains that Peking has failed to renounce the Communist Party of Malaysia although the Chinese have done all but that.

In the early 1960s, the Indonesian Communist Party, or PKI, claimed to have 23 million members and was the largest Communist Party outside China and the Soviet Union. Hundreds of thousands died or were jailed following their attempted coup in 1965. PKI leaders remain in exile in China, however, and they continue to be an irritant to restoring Sino-Indonesian relations.

Although it has often stayed in the background of ASEAN diplomacy, Indonesia, with more than 165 million people by far the largest ASEAN nation, is recognized by its five partners as the key to the region's continued success. Now, Indonesia is beginning to assert itself more. In April, President Suharto will be the house for a conference in Bandung marking the 30th anniversary of the meeting of Asian and African leaders that launched the non-aligned movement. "It will be a sort of debutante party for Indonesia," a Thai diplomat says.

COMMUNIST INROADS

Only in the Philippines do Communist insurgents appear to pose a mounting threat in the region, largely because of the malfeasance of the Ferdinand Marcos regime. The rebellion grows from domestic discontent and, Western intelligence officials believe, has received little or no aid from Peking or Moscow in recent years.

Yet, even after the great progress of the past decade, the dominoes cautiously refuse to proclaim that they are safe. "The domino theory could still be borne out if the people are poor and discontented," says Izhar Ibrahim, a minister-counselor in Indonesia's mission to the U.N.

The prospect seems far more remote, however, than it did 10 years ago. A former assistant secretary of state, Richard Holbrooke, thinks that it is time to end the tale of dominoes.

"The ASEAN nations," he says, "are no longer dominoes, i.e., small, fragile states. The greatest threat doesn't lie in aggression from abroad, but in their internal political structures, which aren't yet fully mature."

For most of them, political maturity will be tested during the next decade by the inevitabler transition to the next generation of leaders. And for some, that transition could be painful.

President Suharto has ruled Indonesia for 20 years, and no group of younger leaders has emerged. A struggle for power seems almost certain in the post-Marcos Philippines. Thailand's generals have been relinquishing power under minimal duress to younger officers, but pressure is building for more democratic rule.

In Malaysia, a younger generation of leaders already has arrived but it has come to the scene with the same ethnic animosities between Malays and Chinese, who each form about 40% of the population, that troubled the past. Only Singapore has designated a successor generation—four politicians in their 40s.

Singapore's Lee Kuan Yew says, "I would not rule out the insurgent movements in Southeast Asia getting another lease on life if conditions became bad and rulers were stupid and oppressive."

Senator **Murkowski**. Senator Evans.

Senator **Evans**. I have no opening statement, Mr. Chairman. Thank you.

Senator **Murkowski**. Before I call on the witnesses, I would also like to state another generality that perhaps I have overlooked in my observation of the foreign assistance program in its entirety.

We have cases, which I will outline to this committee or the full committee, where what we in effect have done is to provide in the assistance program moneys that equal or approach the interest due on the outstanding debt of recipient countries.

So, the reality of providing any realistic aid is very questionable by that accounting method. These countries have accumulated so much debt that to pay interest or to service that debt equates to the proposed administration's contribution of aid in one form or another.

I have some rather staggering figures of total debt that are not provided in the material that the administration has provided because they are additional debt guaranteed by the Federal Government, and they are collective figures.

I might indicate that I am told now that the total debt of the Philippines is $810 million, and that does not include concessional loans that were carried for the first time last year. So, really, when we look at the Philippines, as an example, we are looking at debt, total debt accumulated through 1984.

If we look at the interest this year, we find that the interest on one portion of the debt is $28 million, and the principal is $145 million. I have been unable to find out the true status of the current or delinquent debt. Getting that information is like pulling teeth.

It is agonizing to get the current status of performance with these countries, and when you couple that with the outstanding debt associated with the $17 billion that the Federal Government has guaranteed, you reach the point where frustrations become very high.

I have a spread sheet which I will submit for the record that was done by my staff with the help of the professional staff of the full committee, which I think goes a long way to shed some light on this.

But when you consider we are only including the countries of Indonesia, Korea, Malaysia, the Philippines, and Thailand, for the most part, and we have a total debt of these countries of $8 billion, it is rather staggering when we recognize that the witnesses before us are requesting a total of—well, let us see. It is a combination of totals, but it is roughly $397 to $471 million.

I appreciate the witnesses having borne with my explanation of my major concern, and would ask that you proceed. Mr. Secretary, would you please proceed?

STATEMENT OF HON. PAUL D. WOLFOWITZ, ASSISTANT SECRETARY OF STATE FOR EAST ASIAN AND PACIFIC AFFAIRS, DEPARTMENT OF STATE, ACCOMPANIED BY JAMES A. KELLY, DEPUTY ASSISTANT SECRETARY FOR EAST ASIAN AND PACIFIC AFFAIRS, OFFICE OF INTERNATIONAL SECURITY AFFAIRS, DEPARTMENT OF DEFENSE; AND CHARLES W. GREENLEAF, JR., ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. WOLFOWITZ. Thank you, Mr. Chairman.

Mr. Chairman, Senator Evans, it is a pleasure to appear before this subcommittee. We have, I think, worked very effectively over recent years with this committee in building a strong and bipartisan base of support for our very crucial U.S. interests in East Asia.

Mr. Chairman, I would like at the outset to associate myself very strongly with the comments you have made about the Philippines, including your comment that our interests there far transcend just our interest in the bases, as important as that interest is.

Senator MURKOWSKI. Mr. Secretary, would you pull the microphone a little bit closer to you?

Mr. WOLFOWITZ. Yes, sir.

If I could have your permission, I would like to enter into the record some testimony that my colleagues and I recently gave on the House side specifically on the Philippines that goes into even more detail than we have given you in the statement I have submitted today.

[The material referred to follows:]

STATEMENT OF THE HONORABLE

RICHARD L. ARMITAGE

ASSISTANT SECRETARY OF DEFENSE

(INTERNATIONAL SECURITY AFFAIRS)

BEFORE THE

SUBCOMMITTEE ON MILITARY CONSTRUCTION

HOUSE APPROPRIATIONS COMMITTEE

REGARDING THE

PERSIAN GULF AND PACIFIC AREA

MARCH 21, 1985

MR. CHAIRMAN,

THANK YOU FOR THE OPPORTUNITY TO ADDRESS THIS SUBCOMMITTEE ON THE FY 86 DEFENSE DEPARTMENT REQUEST FOR MILITARY CONSTRUCTION FUNDING IN SOUTHWEST ASIA AND THE PACIFIC. MY REMARKS WILL FOCUS ON THE POLITICAL AND MILITARY DIMENSIONS OF THESE MILCON PROGRAMS AND THEIR IMPORTANCE TO UNITED STATES DEFENSE EFFORTS IN THESE TWO IMPORTANT REGIONS.

MAJOR GENERAL WATTS WILL BE PREPARED TO ADDRESS THE PARTICULARS OF OUR SOUTHWEST ASIA SUPPORT PROGRAMS AND THE ENHANCED CAPABILITY THAT THEY WILL AFFORD THE UNITED STATES.

THE MAJOR OBJECTIVES OF OUR MILITARY CONSTRUCTION PROGRAMS HAVE BEEN AND WILL CONTINUE TO BE THE DEVELOPMENT OF THE CAPABILITY NECESSARY TO PROJECT U.S. FORCES INTO THE PERSIAN GULF REGION, WHEN NEEDED, AND, THE MAINTENANCE OF STRONG AND CAPABLE FORWARD DEPLOYED FORCES IN THE WESTERN PACIFIC. CONTINUED PROGRESS TOWARDS THESE OBJECTIVES IS ESSENTIAL TO OUR STRATEGY FOR THE DEFENSE OF UNITED STATES' VITAL INTERESTS IN THE PACIFIC AND SOUTHWEST ASIAN REGIONS.

SOUTHWEST ASIA

SOUTHWEST ASIA REMAINS VOLATILE WITH MULTIPLE TROUBLE SPOTS, DESTABILIZING TENSIONS AND OVERT HOSTILITIES, AND THE EVER PRESENT SOVIET THREAT TO EXPLOIT INSTABILITY. OUR STRATEGY FOR THE REGION AIMS TO PROMOTE STABILITY AND TO DETER ACTIONS HOSTILE TO U.S. AND ALLIED INTERESTS, INCLUDING SOVIET OR SOVIET-SPONSORED AGGRESSION. U.S. EFFORTS IN THIS REGARD ARE DIRECTED AT SUPPORT FOR THE SECURITY AND TERRITORIAL INTEGRITY

OF FRIENDLY COUNTRIES IN THE REGION, UNIMPEDED U.S. AND ALLIED ACCESS TO OIL, AND THE MAINTENANCE OF FREEDOM OF NAVIGATION THROUGH THE REGION'S SEA LANES. BECAUSE OF OUR LIMITED ABILITY TO PROJECT AND SUSTAIN FORCES IN THE REGION, OUR STRATEGY IS TO IMPROVE U.S. MILITARY CAPABILITY AND TO INCREASE SUPPORT FROM OUR ALLIES AND FRIENDS.

THE MOST SALIENT AND IMMEDIATE THREATS TO REGIONAL STABILITY IN SOUTHWEST ASIA ARE BEING GENERATED FROM WITHIN THE REGION ITSELF. THE VIRULENCE AND EXPANDING INFLUENCE OF ISLAMIC FUNDAMENTALISM, EMANATING FROM IRAN, HAS HAD A MAJOR AND INCREASING IMPACT ON EVENTS IN THE REGION. IN RECENT WEEKS IRAN AND IRAQ HAVE ATTACKED EACH OTHER WITH NEW VENGEANCE IN THE 4 1/2 YEAR-OLD WAR WHICH AGAIN IS EXACERBATING TENSIONS IN THE AREA AND HEIGHTENING THE DANGER TO SHIPPING. THREATS BY EACH BELLIGERENT TO TARGET THE OTHER'S OIL AND ECONOMIC FACILITIES, AND THE POSSIBILITY THAT THE WAR COULD SPILL OVER INTO THE REST OF THE REGION, STILL HOLD POTENTIAL DANGER FOR THE SECURITY OF FRIENDLY REGIONAL STATES AND FOR DISRUPTIONS TO THE WORLD OIL SUPPLY. THE UNCERTAIN OUTCOME OF THE IRAN-IRAQ WAR AND OF EVENTS IN A POST-KHOMEINI IRAN, WILL CONTINUE TO EXERT PRESSURE ON FRIENDLY REGIONAL STATES ON WHOSE SUPPORT WE DEPEND FOR THE DEFENSE OF OUR INTERESTS. FRIENDLY GOVERNMENTS COULD BECOME VICTIMS OF EXTERNAL AGGRESSION OR INTERNAL INSURRECTION, POSSIBLY STIMULATED BY THE SOVIETS OR IRANIAN SHIITE FUNDAMENTALISTS. IRAN COULD BECOME MORE RECEPTIVE TO SOVIET OVERTURES. WE ANTICIPATE A PROLONGED PERIOD OF INSTABILITY IN

THE REGION THAT WILL CONTINUE TO POSE COMPLEX AND DYNAMIC CHALLENGES FOR THE DEFENSE OF U.S. INTERESTS.

WE EXPECT REGIONAL STATES, EITHER UNILATERALLY OR IN CONCERT WITH OTHERS, WILL BE ABLE TO DEAL WITH MOST, IF NOT ALL, INTERNAL SUBVERSION AND INTRA-REGIONAL CONFLICTS. IN SUCH INSTANCES THE U.S. WILL RELY PRIMARILY ON FORCES INDIGENOUS IN THE REGION, OR IN SOME CASES ON UNITED NATIONS OR OTHER MULTINATIONAL PEACEKEEPING FORCES TO RESTORE ORDER. OUR PRIMARY ROLE IN SUCH SITUATIONS WOULD BE TO PROVIDE LOGISTICS SUPPORT AND SECURITY ASSISTANCE, WHERE NEEDED. HOWEVER, A SOVIET INVASION OR OTHER DIRECT MILITARY THREAT TO OUR VITAL INTERESTS COULD INVOLVE THE USE OF U.S. FORCES ALONG WITH THE FORCES OF FRIENDS AND ALLIES.

THE SOVIETS HAVE NOT CEASED THEIR EFFORTS TO EXPLOIT OPPORTUNITIES FOR INCREASED INFLUENCE AND GEOPOLITICAL ADVANTAGE. THEIR PRESENCE IN SYRIA, LIBYA, SOUTH YEMEN, AND THE HORN OF AFRICA, AND THE CONTINUED OCCUPATION OF AFGHANISTAN, DEMONSTRATE SOVIET DESIRE TO CONTROL AND DOMINATE SOUTHWEST ASIA AND ACCESS TO ITS RESOURCES. THEIR PRESSURE THREATENS THE INDEPENDENCE AND TERRITORIAL INTEGRITY OF STATES IN THE REGION, AS WELL AS OTHER VITAL U.S. INTERESTS IN THE REGION.

THE KEY TO MANAGING THE SOVIET THREAT IS DETERRENCE. WE MUST CONVINCE THE SOVIETS THAT SHOULD THEY ATTACK OUR VITAL INTERESTS IN SOUTHWEST ASIA, THE COSTS WILL BE HIGH. IN CONJUNCTION WITH OUR NATION-BUILDING EFFORTS TO PREVENT SOVIET POLITICAL-MILITARY CONTROL AND DETER SOVIET INVASION, WE MUST ENHANCE DETERRENCE BY SUFFICIENTLY IMPROVING OUR GLOBAL capabilities to deploy and sustain military forces. Access to facilities in Southwest Asia and those which improve enroute access are crucial to this effort.

We share vital national interests with our allies in Southwest Asia, and believe that threats to these common interests should be met through allied support and cooperation. Therefore, we have continued to urge our allies to undertake increased defense efforts in Western Europe and Japan to improve U.S. flexibility in Southwest Asia, and we have sought greater access to facilities, both enroute to and within the region, to ease U.S. deployments and planning. We support close political relations, with increased economic support and security arrangements, between our allies and friendly regional countries, as well as strengthened force deployments and greater coordination with U.S. military activities in the region.

The United States must be prepared to respond to a broad range of threats, and to demonstrate our responsiveness and reliability in a manner which reduces the risk of escalation and protects the integrity of friendly states. Development of such a capability is dependent on completing the military construction program we began in Southwest Asia in 1981. Now nearing completion, this program will enhance our capability to rapidly project and sustain U.S. forces in the region, when required. Our FY 86 request is important for the continuation of this effort. totalling 70.515 million dollars, it includes ongoing projects in Diego Garcia and Morocco, and out of area support for airlift operations at Lajes. No MILCON funding is

REQUESTED FOR KENYA, SOMALIA, OR EGYPT; AND NONE IS REQUESTED FOR OMAN THIS YEAR.

OUR REQUEST REFLECTS MATURING PROGRAMS, WITH PROJECTS EITHER COMPLETED OR NEARING COMPLETION. WHILE WE DO NOT ENVISION MAJOR NEW PROJECTS OR SITES, SOME ADDITIONAL FACILITY REQUIREMENTS STILL EXIST. IF FACILITIES CANNOT BE ACQUIRED THROUGH OTHER AVENUES, SUCH AS HOST NATION SUPPORT, FOLLOW-ON MILCON WILL HAVE TO BE DEVELOPED. WITHIN THE SCOPE OF THE PRESENT PROGRAM, HOWEVER, SMALLER, FOLLOW-ON PROJECTS ALSO MAY BE NEEDED TO SUPPORT PREPOSITIONING AND CONTINGENCY REQUIREMENTS, PARTICULARLY IN THE AREAS OF FUEL STORAGE AND WAREHOUSING. WITH OUR SOUTHWEST ASIA MILCON PROGRAM LARGELY COMPLETE, WE HAVE TURNED OUR ATTENTION TO MAINTAINING THESE FACILITIES WE HAVE BUILT, ALONG WITH THOSE BUILT BY HOST GOVERNMENTS WHICH WE NOW USE DURING PEACETIME EXERCISES AND DEPLOYMENTS AND PLAN TO USE DURING CONTINGENCY OPERATIONS. THE USE OF O&M FUNDING FOR THIS PURPOSE PARALLELS OUR FACILITIES MAINTENANCE AT OTHER LOCATIONS AROUND THE WORLD.

HIGHLIGHTS OF OUR FY 1986 REQUEST ARE AS FOLLOWS:

IN DIEGO GARCIA THE U.S. HAS EXPANDED FACILITIES IN CONSULTATION WITH THE UK. OUR AIR FORCE MILCON WHICH SUPPORTS USCENTCOM, PROVIDES SUPPORT FOR MAJOR AIRLIFT, STRATEGIC PROJECTION FORCE OPERATIONS, AND PRE-POSITIONING. THE FY 81 PROGRAM IS COMPLETE, AND THE FY 82 PROGRAM 99% FINISHED. CONTRACTS FOR THE FY 83 AND FY 84 PROGRAMS WERE AWARDED IN MARCH 1984, AND THAT CONSTRUCTION IS NOW OVER 80% AND OVER 50% COMPLETED, RESPECTIVELY. THE FY 83 PROGRAM SHOULD BE FINISHED

IN OCTOBER 1985. THE FY 84 PROGRAM, ALONG WITH THE RECENTLY BEGUN FY 85 CONSTRUCTION, ARE BOTH EXPECTED TO BE COMPLETED IN FEBRUARY 1986.

THE NAVY PROGRAM ON DIEGO GARCIA SUPPORTS USPACOM CARRIER BATTLE GROUP PRESENCE IN THE INDIAN OCEAN. THE FY 81 AND FY 82 PROGRAMS ARE VIRTUALLY FINISHED. CONSTRUCTION FOR THE FY 83 PROGRAM IS OVER 50% COMPLETE, AND SHOULD BE FINISHED IN OCTOBER 1985. THE FY 84 AND FY 85 PROGRAMS, JUST UNDERWAY, ARE BOTH SCHEDULED FOR COMPLETION IN FEBRUARY 1986.

THE TOTAL FY 86 REQUEST FOR DIEGO GARCIA IS 47.98 MILLION DOLLARS. THIS FUNDING IS TO BE USED TO CONTINUE IMPROVEMENTS TO THE NAVAL SUPPORT AND NAVAL AIR FACILITIES AND TO PROVIDE FOR PHASE TWO CONSTRUCTION OF MUNITION STORAGE FACILITIES FOR THE AIR FORCE.

OUR MILCON IN MOROCCO IS AN AIR FORCE PROGRAM BEGUN IN 1984 TO PROVIDE ENROUTE SUPPORT FOR U.S. FORCES DEPLOYING TO SWA. THE OVERALL PROGRAM WILL PROVIDE FOR AIRFIELD IMPROVEMENTS AND FUEL STORAGE TO SUPPORT AIRLIFT THROUGHPUT OF MEN AND MATERIAL. THE FY 84 AND FY 85 PROJECTS ARE BEING DESIGNED. AIR FORCE PLANS TO AWARD CONSTRUCTION CONTRACTS FOR THE FY 84 PROGRAM BY SEPTEMBER 1985 WITH FACILITIES BECOMING AVAILABLE BY SEPTEMBER 1987. THE PROPOSED FY 86 MILCON CONSISTS OF POTABLE WATER STORAGE, APRON LIGHTING, AND ALTERATIONS TO THE MAINTENANCE HANGER, AND TOTALS 3.1 MILLION DOLLARS.

FACILITIES IMPROVEMENTS AT LAJES, IN THE PORTUGESE AZORES, ALSO ARE INCLUDED FOR SOUTHWEST ASIA SUPPORT. THE FY 86 REQUEST TOTALS 19.435 MILLION DOLLARS AND WILL BE USED FOR POL STORAGE

TO ENHANCE THE CAPABILITY OF U.S. FORCES TO DEPLOY TO THE REGION.

MR. CHAIRMAN, THE POTENTIAL THREATS TO U.S. INTERESTS IN SOUTHWEST ASIA HAVE NOT DECREASED. TOGETHER WITH OUR ALLIES AND THE FRIENDLY STATES IN THE REGION, WE MUST CONTINUE TO DEVELOP OUR ABILITY TO RESPOND TO A RANGE OF POSSIBLE CONTINGENCIES. LET ME REITERATE WHAT I SAID IN THIS SAME ROOM LAST YEAR, THAT THE STRONGER THE PERCEPTION THAT THE U.S. CAN BRING FORCES TO BEAR QUICKLY IN THE REGION, THE GREATER THE DETERRENT VALUE. RAPIDLY DEPLOYABLE FORCES PROVIDE THE FLEXIBILITY REQUIRED TO COUNTER THE THREATS TO OUR INTERESTS AND THOSE OF FRIENDLY COUNTRIES IN THE REGION.

THE MILITARY CONSTRUCTION PROGRAM THAT I PROPOSE TODAY IS A CONTINUATION OF THAT WHICH WE BEGAN IN 1981. THESE PROJECTS FOR WHICH WE SEEK FUNDING IN FY 1986 WILL HELP TO COMPLETE THE DEVELOPMENT AND IMPROVEMENT OF FACILITIES THAT ARE NECESSARY TO DEPLOY AND SUSTAIN OUR FORCES. WITHOUT THESE PROPOSED PROJECTS, OUR CAPABILITY TO SUPPORT THE U.S. STRATEGY AND OBJECTIVES FOR SOUTHWEST ASIA THAT I HAVE OUTLINED TODAY, WILL BE SIGNIFICANTLY CURTAILED. PROTECTION OF OUR VITAL INTERESTS AND THE SECURITY OF FRIENDLY STATES IN A VOLATILE REGION REQUIRES THAT WE CONTINUE TO CARRY THROUGH TOWARDS COMPLETION OUR MILITARY CONSTRUCTION PROGRAM.

THE PACIFIC REGION

IN SOUTHWEST ASIA THE OBJECTIVE OF OUR MILITARY CONSTRUCTION PROGRAM IS TO PREPARE FOR CONTINGENCIES REQUIRING THE DEPLOYMENT OF US FORCES. IN THE PACIFIC IT IS PRIMARILY TO SUPPORT US FORCES ALREADY IN PLACE. THOSE FORWARD DEPLOYED FORCES ARE KEY TO OUR POLICY OF DETERRENCE AND EFFECTIVE DEFENSE IN ASIA. THEY ARE NOT JUST ANOTHER ELEMENT OF OUR ASIAN DEFENSE POLICY; THEY ARE THE UNDERPINNING OF THAT POLICY.

OUR SYSTEM OF DETERRENCE AND DEFENSE IN ASIA AND THE PACIFIC IS NECESSARY BECAUSE, DURING THE PAST DECADE AND A HALF, THE SOVIET UNION HAS STEADILY IMPROVED ITS MILITARY CAPABILITIES AND SOUGHT TO EXPAND ITS INFLUENCE THROUGHOUT THE REGION. 1984 SAW A CONTINUATION OF THE GROWTH OF SOVIET POWER IN ASIA AND THE PACIFIC. IN ADDITION TO INTERCONTINENTAL BALLISTIC MISSILE INCREASES, THE SOVIETS INCREASED THE NUMBER OF INTERMEDIATE-RANGE SS-20 MISSILES IN THE FAR EAST. THE SOVIET NAVY DEPLOYED A SECOND AIRCRAFT CARRIER AND ANOTHER IVAN ROGOV-CLASS LANDING SHIP TO THE PACIFIC. ITS AIR FORCE CONTINUED IMPORTANT QUALITATIVE IMPROVEMENTS TO TACTICAL AIRCRAFT BASED IN THE SOVIET FAR EAST. PERHAPS MOST SIGNIFICANT, THE SOVIETS IMPROVED THEIR FORWARD DEPLOYMENT BASE AND STAGING FACILITY AT CAM RANH BAY IN VIETNAM BY INCREASING THE TU-16 BADGER BOMBER FORCE AND TU-95 BEAR RECONNAISSANCE AIRCRAFT TO ABOUT 20 AND BY DEPLOYING A SQUADRON OF MIG-23 FLOGGER FIGHTERS.

The port and airfield facilities at Cam Ranh Bay are now the largest Soviet forward deployment base and staging facility outside the Soviet Union. Operating from their bases in Vietnam, Soviet air and naval forces could strike forward-deployed US military units and their supporting facilities in the Pacific, as well as interdict sea lines of communication in the South China Sea. The increased use of Cam Ranh Bay as a logistics and staging base also shortens the time needed to reinforce Soviet naval units in the Indian Ocean and, at the same time, enhances the Soviets' ability to interdict the vital sealanes between the Pacific and Indian Oceans.

Soviet allies in East Asia maintained their aggressive posture in 1984 as well. North Korea, which still spends more than 20 percent of its GNP on defense, relocated several units of its combat forces forward, close to the DMZ area. Vietnam's brutal occupation of Cambodia continued to be a major problem in the region. In November, Vietnamese troops began their most aggressive dry season offensive since they invaded Cambodia in 1978. They have thus far overrun numerous refugee camps on the border with Thailand, as well as violated Thailand's sovereignty by incursions into Thai territory.

To safeguard our interests in the region we have adopted a defense strategy which stresses reliance on our own deployed forces. U.S. interests and commitments and the threats we face require that we continue substantial forward deployments in Asia and the Pacific. The proximity of Soviet forces to our allies and interests in the region means we must be able to respond rapidly and effectively. Forward deployed forces give us this capability. They enhance deterrence, reassure our allies, and provide a more stable international environment for constructive diplomacy.

Our East Asian defense policies also recognize that the United States by itself cannot halt Soviet global expansion or its regional manifestations in Asia or elsewhere. Our allies and friends are more important than ever in the common defense against the growing threats to our security and freedom.

That is why Secretary Weinberger describes our East Asian defense policy as resting on six pillars, five of which stress the importance of our relations with allies and friendly countries in the region. The six pillars are: one, our determination to remain a Pacific power; two, the key importance of our security relationship with Japan; three, our commitment to stability on the Korean peninsula; four, our efforts to build an enduring relationship with the People's Republic of China; five, our support for

THE POLITICAL AND ECONOMIC VITALITY OF ASEAN AND, BILATERALLY, FOR THE SELF-DEFENSE EFFORTS OF ITS MEMBERS; AND SIX, OUR LONG-STANDING ANZUS PARTNERSHIP WITH AUSTRALIA AND NEW ZEALAND.

BUT LET ME EMPHASIZE THAT THE FIRST OF THE SIX PILLARS IS THE ABSOLUTE DETERMINATION OF THE UNITED STATES TO REMAIN A PACIFIC POWER WITH THE ABILITY AND WILL TO PROTECT OUR IMPORTANT INTERESTS IN THE REGION. A STRONG AND VISIBLE U.S. PRESENCE IS ABSOLUTELY ESSENTIAL TO PREVENT INTIMIDATION OF OUR FRIENDS AND ALLIES BY THE GROWING SOVIET MILITARY MIGHT AND TO ASSURE THOSE NATIONS WHO SHARE OUR VALUES OR INTERESTS THAT AMERICA'S COMMITMENT TO THE REGION REMAINS FIRM.

A LESSENING OF U.S. EFFORTS IN THE WESTERN PACIFIC WOULD BRING DESPAIR -- DESPAIR BORN OF FEARS IN MANY OF THE COUNTRIES OF EAST ASIA THAT UNILATERAL DEFENSE, PARTICULARLY AGAINST THE GROWING SOVIET MILITARY MIGHT, WOULD BE HOPELESS.

IN CONTRAST, WHEN WE INCREASE OUR OWN EFFORTS IN THE REGION, AS WE HAVE DONE, WE PROVIDE HOPE. WE ASSURE OUR FRIENDS AND ALLIES THAT DEFENSE IS POSSIBLE. WE CAN THEN CALL UPON THEM TO INCREASE THEIR DEFENSE EFFORTS, NOT SO WE CAN DO LESS, BUT SO THAT OUR COMBINED CAPABILITIES CAN BETTER COUNTER THE INCREASED THREAT. WE CONTINUE TO URGE ALL OF OUR ALLIES TO DO MORE IN THE COMMON DEFENSE.

To maintain the security of the U.S., our allies, and our sea lanes and to maintain regional security, we rely primarily on our allies to meet local threats, while maintaining forward deployed forces in Korea, Japan, the Philippines and elsewhere in the Pacific to fulfill our commitments and to meet the Soviet threat.

Over the last several years the Philippines especially have assumed heightened importance because of support requirements for our increased Indian Ocean deployments and the Soviet naval buildup which includes the use of military facilities at Danang and Cam Ranh Bay in Vietnam. The Soviet role in the continuing Vietnamese occupation of Kampuchea has also magnified regional interest in tangible indications that the United States will retain its presence in Southeast Asia.

The US forces and facilities at Clark Air Base and Subic Naval Base in the Philippines provide the capability to project US power to protect vital air and sea lanes extending from the Indian Ocean and the South China Sea northward to Japan. They provide continuous air and naval presence in the Western Pacific (within four hours flying or five sea days from Japan, Guam, Singapore, and Korea). Further, the facilities provide us the capability to project and support a US presence in the Indian Ocean (within eight flying hours or nine sea days). We would be

HARD PRESSED TO MEET CONTINGENCIES IN THE INDIAN OCEAN, PERSIAN GULF, AND THE SOUTHWEST PACIFIC WITHOUT US MILITARY FACILITIES IN THE PHILIPPINES. THE GEOSTRATEGIC VALUE OF THESE FACILITIES IS CLEAR GIVEN THEIR PROXIMITY TO THE MAJOR INTERNATIONAL STRAITS CONNECTING THE OIL RICH MIDDLE EAST TO OUR ALLIES IN NORTHEAST ASIA. FINALLY, THE LOGISTICS, COMMUNICATION AND REPAIR FACILITIES AT CLARK AND SUBIC SAVE BOTH REPAIR COSTS AND VALUABLE TRANSIT TIME.

SHOULD WE EVER HAVE TO REPLACE THE FACILITIES, THE CIRCUMSTANCES OF THE RELOCATION COULD HAVE A SIGNIFICANT IMPACT ON THE COSTS OF A MOVE. FROM THE TIME A DECISION WAS MADE, SEVERAL YEARS WOULD BE NEEDED TO CONSTRUCT FACILITIES AT ALTERNATE LOCATIONS. THE CONSTRUCTION OF REPLACEMENT FACILITIES, PROCUREMENT OF ADDITIONAL SHIPS AND AIRCRAFT TO MAINTAIN THE SAME LEVEL OF MILITARY OPERATIONS OVER LONGER DISTANCES, AND ADDED COSTS OF SHIP REPAIR AT ALTERNATIVE FACILITIES WOULD INVOLVE EXPENDITURES OF SEVERAL BILLION DOLLARS. EVEN THEN, THE RESULT WOULD BE DECREASED CAPABILITIES AND REDUCED FLEXIBILITY OF US FORCES IN THE WESTERN PACIFIC AND INDIAN OCEANS.

THE MEMBERS OF THIS SUBCOMMITTEE KNOW WELL THE CRITICAL IMPORTANCE OF THE PHILIPPINES TO OUR GLOBAL DEFENSE POSTURE. OUR UNHAMPERED ACCESS TO THE AIR AND NAVAL FACILITIES AT PHILIPPINE BASES IS ESSENTIAL TO OUR STRATEGY OF FORWARD DEPLOYED FORCES IN THE PACIFIC AND INDIAN OCEANS. BUT YOU ARE UNDOUBTEDLY ALSO AWARE

THAT THE PHILIPPINES TODAY FACES ITS MOST SERIOUS POLITICAL, ECONOMIC, AND MILITARY CHALLENGES SINCE WORLD WAR II. WE BELIEVE THAT THE PHILIPPINES GOVERNMENT UNDERSTANDS WHAT NEEDS TO BE DONE TO RESOLVE ITS PROBLEMS. RECENT GOVERNMENT INITIATIVES IN THE AREA OF POLITICAL, ECONOMIC, AND MILITARY REFORM HOLD THE PROMISE OF PROGRESS IN RESTORING DEMOCRATIC INSTITUTIONS, REVITALIZING THE ECONOMY, AND REDUCING DOMESTIC VIOLENCE. OUR SECURITY ASSISTANCE PROGRAM FOR THE PHILIPPINES IS INTENDED TO ENCOURAGE ENERGETIC IMPLEMENTATION OF MILITARY REFORMS AND TO SUPPORT PROSECUTION OF THE MILITARY COUNTERINSURGENCY EFFORT.

WE ARE FORTUNATE THAT OUR PRESENCE IN THE PHILIPPINES IS SUPPORTED NOT ONLY BY THE GOVERNMENT, BUT ALSO BY THE FILIPINO PEOPLE, WITH WHOM WE HAVE HAD A LONG AND SPECIAL RELATIONSHIP. THEY RECOGNIZE THE IMPORTANT ROLE THAT OUR PRESENCE PLAYS FOR THE SECURITY OF THE PHILIPPINES AND THE ENTIRE REGION. MOREOVER, THE US IS THE SECOND LARGEST EMPLOYER IN THE PHILIPPINES, AND THE BASES CONTRIBUTE $250-300 MILLION ANNUALLY TO THE PHILIPPINES ECONOMY. UNDER THE CURRENT AGREEMENT WE ARE GUARANTEED UNHAMPERED ACCESS TO THE BASE FACILITIES UNTIL 1991, AFTER WHICH EITHER PARTY CAN CANCEL THE ARRANGEMENT WITH ONE YEAR'S NOTICE.

REGARDLESS OF CHANGES IN THE POLITICAL WINDS IN MANILA AND WASHINGTON, THE TWIN GOALS OF ENHANCING THE SECURITY OF THE PHILIPPINES AND MAINTAINING THE SECURITY OF THE WESTERN PACIFIC HAVE REMAINED CONSTANT FOR 35 YEARS. WE ANTICIPATE THAT THE

US-Philippine mutual security relationship will remain an enduring element of the military planning of both countries in the near and far term, not only because we are traditional allies, but also because these agreements satisfy vital national security needs of both countries.

To support the essential forward deployments in the Pacific, we are requesting $449 million for FY 86 military construction and $62 million for family housing. Projects include a continuing effort to upgrade working and living conditions in all areas. As with the European program, we have increased our investment over the past four years and propose an increase in FY 86. What we are doing here is continuing our effort to catch up for many years of underfunding. We have included in the FY 86 program:

-- $83 million for dormitories on Guam, the Philippines, and Korea;

-- $92 million for operational facilities in Japan, Korea, the Philippines, and Kwajalein;

-- $83 million for sorely needed supply facilities;

-- over $100 million for new maintenance facilities required for the upkeep of our tactical equipment in Japan, Korea, and the Philippines;

-- $50 million for upgrade of utility systems;

-- $15 million for medical facilities;

-- and $18 million for much needed school construction in Japan, Korea, and the Philippines.

WE ARE ABLE TO KEEP OUR REQUEST RELATIVELY LOW BECAUSE OF THE EXCELLENT SUPPORT PROVIDED BY OUR JAPANESE AND KOREAN ALLIES. FOR THE PAST SEVERAL YEARS, BOTH THE JAPANESE AND THE KOREAN GOVERNMENTS HAVE BEEN FUNDING FACILITIES TO SUPPORT THE U.S. FORCES STATIONED IN THEIR COUNTRIES. EACH YEAR WE GIVE THEM A LIST OF SPECIFIC PROJECTS THAT ARE NEEDED TO SUPPORT EXISTING OR PLANNED FORCES. THEY THEN SELECT PROJECTS THAT FALL WITHIN GENERAL CATEGORIES APPROVED FOR HOST NATION SUPPORT. IN JAPAN, THE PROJECTS NORMALLY INVOLVE PERSONNEL SUPPORT, ENVIRONMENTAL PROJECTS, AND FAMILY HOUSING, WHEREAS THE KOREANS PREFER TO FUND OPERATIONAL FACILITIES. OVER THE PAST SIX YEARS, JAPAN HAS FUNDED MORE THAN ONE BILLION DOLLARS FOR CONSTRUCTION, WHILE THE REPUBLIC OF KOREA CONTRIBUTED OVER $330 MILLION. BUT THIS IS JUST A SMALL PORTION OF THE TOTAL HOST NATION SUPPORT WE RECEIVE FROM THESE COUNTRIES. IN ADDITION TO CONSTRUCTION, BOTH GOVERNMENTS PROVIDE OTHER ITEMS, SUCH AS LAND, TAX ABATEMENTS, UTILITY COST REDUCTIONS, AND PERSONNEL OFFSETS. THE TOTAL VALUE OF HOST NATION SUPPORT IN JAPAN AND KOREA APPROACHES ONE BILLION DOLLARS A YEAR.

MR. CHAIRMAN, OUR CAPABILITY TO FULFILL OUR DEFENSE COMMITMENTS IN EAST ASIA AND TO PROJECT FORCES RAPIDLY INTO SOUTHWEST ASIA, OR WHEREVER NEEDED, IS ESSENTIAL TO DETERRENCE AND EFFECTIVE DEFENSE AGAINST HOSTILE FORCES. THE ALLOCATION OF APPROPRIATE

MILITARY CONSTRUCTION FUNDS IS NECESSARY TO MAINTAIN AND ENHANCE THIS CAPABILITY AND TO IMPROVE THE QUALITY OF LIFE OF OUR SOLDIERS, SAILORS AND AIRMEN AND THE DEPENDENTS WHO ACCOMPANY THEM. WHEN WE SPEAK OF THE CRITICAL IMPORTANCE OF FORWARD DEPLOYMENTS, WHAT WE ARE TALKING ABOUT IS PEOPLE -- MEN AND WOMEN OF OUR ARMED FORCES. THEY DESERVE OUR BEST EFFORTS TO PROVIDE THE FACILITIES THEY NEED TO DO THE JOBS WE REQUIRE OF THEM AND TO MAINTAIN LIVING CONDITIONS APPROPRIATE TO THE TREMENDOUS IMPORTANCE WE ATTACH TO THEIR SERVICE. I URGE YOUR SUPPORT FOR THE ADMINISTRATION'S MILITARY CONSTRUCTION REQUEST.

Mr. WOLFOWITZ. In the interest of time, which I know is short, we will dispense with reading my lengthy statement, which I have submitted for the record.

Senator MURKOWSKI. Your entire statement will be entered into the record.

Mr. WOLFOWITZ. Thank you.

If I may, I would like to say a word about the four biggest requests that you have in front of you, and then a very brief word about where we are going in Asia in general. First, to speak about Korea: For Korea this year as in recent years our request is entirely for military assistance.

This year we are asking for $228 million in FMS credits as compared to $220 million last year. That is designed to help South Korea deal with the military threat that is all too real and all too formidable.

The reality of this threat was brought home not so many months ago with the tragic bombing in Rangoon that killed a number of the most distinguished members of the South Korean cabinet, whose loss is still felt deeply in Korea and by us here in the U.S. today.

That action showed the kind of intentions that North Korea harbors. What North Korea shows with its troop deployments is a very strong need for a significant defense capability and defense effort on South Korea's part.

The fact is that the assistance that we are requesting is a small contribution added to the contribution that South Korea is already making with its own resources, devoting over $4 billion of its own resources to a defense expenditure of approximately 6 percent of its GNP, a level that very few of our allies, if any, meet.

In addition, I might add, of what they do procure with their own cash, roughly $500 million of their money goes to purchase equipment from U.S. manufacturers, which is a minor but certainly not insignificant part of the equation.

I would like to say, Mr. Chairman, if you would indulge me, just a brief word about the importance of democracy in Korea. In saying so, I do not believe that any linkage should be made between our military assistance, which is essential and necessary, and the effort to promote reform, although I do believe it is essential to acknowledge that what we are talking about in Korea is in fact an effort to protect a system that, whatever its defects, is enormously free compared to what North Korea seeks to impose.

But it also must be of interest to Americans that there be real progress in Korea toward democracy. We make no secret of our belief that progress is necessary. President Reagan has spoken openly about the need, even when he was in Seoul.

There has been a lot of attention to this subject in recent weeks, and far too much of that attention, in my view, focused simply on the scuffle at the airport when Kim Dae Jung was returned, but far more significant developments have been taking place, particularly the conduct of the recent elections in South Korea and the emergence of a much more vocal opposition in South Korea.

Those developments along with a number of others in the last year and a half give me some encouragement that real progress is being made on the road to democracy. I will be glad to say more about that if you like when we get to questions.

But I would like to read here for the record some comments that were made not by me but by an American lawyer, William J. Butler, who was part of the group that accompanied Mr. Kim Dae Jung back to Korea. These comments come from a lengthy interview that was published recently in the Washington Post, and I quote here from Mr. Butler:

> I do not think that there has ever been a freer political debate in contemporary Korean history than in the recent election. More candidates ran. The debate was wide open. They criticized their government. A lot of people who were banned were allowed to get back into politics. A new political party was formed, and it received an unbelievable number of seats.

And he goes on to say, and these are his words, not mine:

> To the extent that it has gone ahead so far, you can give credit to United States intervention. The Embassy there and the State Department have been working hard for a long time to help bring about democratization. I think they feel the way I do, that little by little they are gaining.

And finally, if I might quote one last excerpt from this interview—and I will acknowledge that there have been many points in the interview critical of the administration—Mr. Butler says:

> I know for a fact that a great deal has been done on behalf of democracy in Korea, even by the Reagan Administration.

We feel quite proud of the role that we have performed, and we will continue to perform it.

On the Philippines, which I think probably is the single most important topic we face today, we are talking about a country that obviously faces perhaps not one crisis but several. This has been the case at least since the time of the tragic and brutal slaying of Senator Aquino.

Since that time, we believe there has been some progress, and progress that we have strongly encouraged by the various means available to us to deal with the basic political and economic problems of the country as well as with the urgent need for military reform.

I could cite various examples of such progress. I think you did already, Mr. Chairman, in your opening statement, the work of the

Agrava Commission, to which I might add the clarification of the important ground rules for presidential succession, the development of much broader press freedom in the Philippines, and perhaps most important of all, the vigorously contested parliamentary elections last May.

We have seen some economic movement with the IMF package. We have seen some movement in the direction of military reform. I am sure you will want to talk about this subject in more detail, but I would like to emphasize here that we have been strongly supportive of those changes. We see substantial need for additional movement on all three fronts—political, economic, and military reform.

There are two new elements in our request for the Philippines this year, and they relate specifically to these needs. Of course, our basic request is determined by our commitment under the last review of the military bases agreement to provide over a 5-year period $900 million to the Philippines, $475 million of that in economic support assistance, and $425 million in military assistance.

Beyond those basic amounts, and the continuation of our ongoing development assistance program at roughly the same level as last year, we are seeking this year two new elements, first, the Public Law 480 title I program of $35 million that might be supplemented further from reserves.

That program, in our view, would be linked to specific progress on structural reform in the agricultural sector, one of the areas most often and regularly identified by Philippine economists, by our own economists, and by the experts of the international banks, the World Bank and the Asian Development Bank, as one of the most essential areas for basic change in the Philippines if the Philippine economy is to get back on a positive growth path.

The second new element, Mr. Chairman, is our request above and beyond what we asked for last year of an additional $15 million in military assistance to make a total of $100 million, broken down into $50 million of grant MAP and $50 million of foreign military sales credits.

In part, of course, this $195 million is all counted against our commitment under the bases agreement, but beyond that it is our view that the additional assistance we are seeking on the military side is essential to meet serious basic equipment, logistics, training, and communications deficiencies that plague the Philippine armed forces.

In the last 2 years, Mr. Chairman, expenditure by the Philippine armed forces has declined drastically. The share of GNP has gone down from roughly 2.2 percent 2 years ago to 1.1 percent in the past year.

The military has a great many problems. We have talked about those problems, and we would be glad to talk about them today in terms of training, leadership, and discipline. But the military also has serious materiel shortages that must be addressed.

We propose to address them, though, in the context of what we believe are incipient reforms taking place in the Philippine military. These include a much greater recognition of the need for a broad strategy, and a particular recognition of the need for strong action to deal with the problem of military abuses and tightening up of discipline if the Philippine military is to be effective against a very serious insurgency that it faces there today.

I might underscore, Mr. Chairman, to put this all in some perspective, that we are asking this year roughly for 18 percent more in military assistance than we asked for last year.

On the economic side, we are asking for 24 percent more than we asked for last year, as you can see, a larger increase, and in fact the proportion of our requests for economic assistance this year is now up to 63 percent. That is nearly $2 for every $1 of military assistance that we are asking for.

But to put that further into perspective, you have to realize that we are not by any means the only donor of economic assistance, but we are the only source of military assistance.

If we put together all the bilateral aid provided by other countries such as Japan, and the aid that comes from the Asian Development Bank and from the World Bank, our military request this year is 7.6 percent of the total aid flow to the Philippines as compared to 92.4 percent that is economic assistance or $12 of economic assistance from various sources for each dollar of military assistance we are requesting here.

Our third major program is for Thailand. It is, with some small increases, basically a continuation of what we asked for last year. I just want to underscore briefly how important that request is.

We have seen repeatedly over the last weeks tragic pictures in the newspapers of masses of Cambodians fleeing to Thailand from Cambodia as a result of the heavy and brutal enemy assaults on resistance positions that began in December.

In fact, we have seen Vietnamese military forces on Thai territory, sometimes many kilometers into Thailand. Thailand, as a result of Vietnam's occupation of Cambodia, has been transformed into a front line state. Our assistance to Thailand has gone up accordingly.

In fact, the total level of $105 million requested for this year represents a tripling over what we were asking for back 5 years ago, in 1980.

We believe that support for Thailand is vital. It is a key part in maintaining and supporting ASEAN strategy for achieving a political settlement of the Cambodian conflict. I might underscore what Senator Pell said.

If the dominoes have not fallen, it is because of efforts of countries like Thailand and the other countries of Southeast Asia to defend themselves, and I believe they are entitled to this kind of support in that effort.

Finally, Mr. Chairman, just to mention very briefly, for Indonesia we are requesting a total of just over $130 million, $96 million in economic assistance, and $37.5 million in security assistance of various kinds. As you recognize readily, the bulk of this request for Indonesia is for economic assistance.

I want to underscore how important that is in the case of Indonesia, and how important a country Indonesia itself is. It is the fifth largest country in the world in population, with a GNP of roughly $90 billion a year. It is the key to Southeast Asia and increasingly a key to the future of Asia as a whole.

Mr. Chairman, just by mentioning these four major programs, I in no way mean to slight smaller programs such as that for Fiji, a country which, while small, contributes significantly to peacekeeping in the Middle East. But I am sure we can get into these specific programs in detail.

I would just like to conclude, Mr. Chairman, by once again thanking the committee for the efforts that you have made to maintain public awareness and bipartisan support for strong U.S. policies in Asia.

I might conclude by quoting Secretary Shultz in testimony before the full committee of 2 weeks ago, where he concluded in talking about the Pacific region that we can, in the Secretary's words, "be proud of the vitality of our alliances, friendships, and productive ties in this promising region. If nations act with wisdom and statesmanship, we may well be at the threshold of a new era in international relations in the Pacific Basin."

Thank you, Mr. Chairman.

[Mr. Wolfowitz', Mr. Kelly's, and Mr. Greenleaf's prepared statements follow:]

PREPARED STATEMENT OF HON. PAUL D. WOLFOWITZ

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to present our fiscal year 1986 foreign assistance proposal for East Asia and the Pacific.

As the East Asian and Pacific region performs an increasingly important role in global commerce and U.S. security interests with each passing year, the positive ramifications of our assistance commitments take on additional significance. Both the security and developmental assistance portions of our request are vital components of a single program--a carefully conceived program for protecting our own interests as a Pacific nation while serving the beneficial cause of stability and progress in that region. It is a program that works, and works to our immediate benefit as it also provides a substantive affirmation of our support for the evolving free-market system and for political pluralism in the area. In this year of budgetary restraint, these vital assistance efforts in the East Asian and Western Pacific region cannot be dismissed as peripheral to our national priorities.

Last month, in his State of the Union Address, President Reagan lauded the accomplishments of the free nations in East Asia, some of which, he noted, "have few resources other than the enterprise of their own people." It is indeed an impressive record, particularly in those instances where adequate assistance supplements and bolsters that enterprising spirit. Our own purpose is to help maintain the stable environment which facililtates economic, political, and social progress by these determined people. More specifically, we seek through our assistance to strengthen that economic and social resilience which helps to deter internal disorder and external threat. We seek to nurture that fertile soil in which human rights and democratic traditions can take root and thrive.

Our economic assistance proposals are concentrated most heavily on three countries: the Philippines and Thailand, both of which are treaty allies, and Indonesia. The largest amount is proposed for the Philippines, which is experiencing its most critical economic crisis since World War II. We are taking steps to ensure that our aid contributes to the structural economic reforms needed to put the Philippines' economy back on the path of growth. The second largest amount of economic assistance is proposed for Indonesia. Low per capita income, a current account deficit, a decrease in exports and the effects of the recession have left Indonesia in a difficult economic situation and hard pressed to meet the challenge of having to absorb the 1.8 million people who join its labor force each year. The Government of Indonesia has undertaken an austerity reform program and a serious development program that emphasizes equity, growth, and stability along with private investment and human resources development. A smaller proportion of the economic assistance funds are targetted for Thailand, which is afflicted by declining terms of trade for its exports, an increasing debt burden and other problems associated with the international recession. The Government, however, has taken prudent steps to adjust its economy which remains free and open and which has sustained impressive growth.

A relatively small amount of economic assistance is proposed for Burma, one of the world's poorest nations. It has been hurt by the world recession and the depressed market for its major foreign exchange earner, rice. Modest amounts of economic assistance are also proposed for Fiji and other Pacific Island states. We are supporting a region-wide program with emphasis on improving agriculture, rural development and fishing techniques, and promoting regional cooperation in this area of smaller populations and smaller markets.

While our FY 1986 request for continuing security support to our friends and allies in Asia is modest, the sustained threats to regional peace and security remain significant. Soviet military forces in the area improve and expand without pause; the Vietnamese are pressing their offensive intensely against Cambodian resistance groups and violating Thailand's sovereign borders; and North Korean military buildups proceed apace even as tentative gestures toward dialogue with the South have faltered. Of course, the United States intends to honor its longstanding commitments to the front-line states and our treaty partners of the region, and this support represents one important aspect of our commitment. At the same time, we help to ensure our ready access to those markets and materials important to our own economic well-being as we also secure our access to those bases and sealanes so vital to our national defense.

Mr. Chairman, our security assistance proposals for 1986 are again concentrated on the Philippines and the two front line states of Korea and Thailand. The largest share of military assistance is again proposed for Korea which continues to face the greatest threat from its communist neighbor North Korea. The Government of the Republic of Korea already is spending a significant portion of its GNP on defense but FMS credits are highly important for the implementation of Korea's Force Improvement Plan.

In the case of the Philippines, our request for security assistance, which includes a substantial economic support fund component, is closely linked to the Presidential "best efforts" commitment made in the context of the last five-year review of our Military Bases Agreement. Proposed enhancements of the military component of our aid package are aimed at helping the Armed Forces of the Philippines overcome serious shortcomings in maintenance, logistics, transportation, communications and training during a period of severe economic difficulites. This proposal is premised on the expectation that recent trends toward mililtary reform and greater professionalism within the leadership and throughout the institution will continue and strengthen.

Thailand continues to face a large Vietnamese force that is trying to subjugate Cambodia and which poses a significant threat to Thailand's security. The Thai government is allocating substantial resources to military modernization in order to create a credible deterrent to Vietnamese adventurism. Our support for this effort is crucial not only because of the importance of Thailand itself but because of the stake we have in the independence, integrity and prosperity of the group of ASEAN nations of which Thailand is a part. The ASEAN states are astride the important sea lanes connecting Asia and the Middle East and Europe, and the free nations of the Pacific, and indeed of the world, have a common stake in keeping them peaceful and open. Indonesia is in a key position in this respect and our common strategic interests are among the important reasons why we are proposing continued security assistance for that country.

The security assistance levels that we are proposing for these and other nations of the region entail only minor increases from 1985 levels and in several cases these amounts are still below those allocated in FY 1984. Moreover, they make up only a modest proportion of the total world wide foreign assistance funds requested for FY 1986.

Mr. Chairman, I would now like to review the individual country programs in some detail.

KOREA

The prevention of conflict on the Korean peninsula is a key component of regional peace, for which the deterrence of North Korean aggression against South Korea is fundamental. For over 30 years, the US-ROK alliance has been successful in its central aim--preventing North Korean aggression leading to a recurrence of hostilities on the Korean peninsula. The cessation of hostilities brought about by the Armistice

Agreement has been marred by such incidents as the 1968 raid on the Blue House by North Korean commandoes, the seizure two days later of the U.S.S. Pueblo, tunneling under the DMZ by the North, and more recently, the 1983 boming in Rangoon, which a Burmese court determined was planned and executed by Pyongyang. Yet war has been prevented, and this has allowed great economic and social progress in South Korea.

In spite of the Republic of Korea's impressive development, its need for continued US security assistance is strong. In the past decade, North Korea, which we estimate spends 20-25 percent of its GNP in military outlays, has carried out a major force buildup, and the military balance continues to favor the North. North Korea has about 750,000 men under arms, compared with 620,000 in the South. Even these numbers, however, substantially understate North Korea's superiority, because non-military units carry out extensive support functions for the offensively oriented North Korean ground forces.

North Korean forces are well equipped and have a substantial advantage (at least 2-to-1) in several key categories of offensive weapons: tanks, long-range artillery, and armored personnel carriers. They also have more than twice as many combat aircraft as the South, although ROK-US forces have the qualitative edge. North Korean exercises have revealed impressive sophistication in joint and combined manuevers.

In addition to the size and capabilities of North Korean forces, the challenge they pose is compounded by factors of time and distance. The bulk of North Korean forces are deployed well forward, along the DMZ, about 25 miles from Seoul, and North Korea has recently begun to construct additional underground fortifications near the DMZ. The North also has perhaps the world's largest commando force, some 80,000-100,000 troops, designed for insertion behind the lines in the event of war. Thus, warning time for ROK and US forces is very limited, and a high state of readiness is a constant requirement.

To counter this threat the ROK, which is committed to spending six percent of its GNP on defense, is engaged in a major force improvement program designed to increase warning time, augment its effective firepower, and enhance its air defense capability. The program, which includes co-production of the F-5 and M109 A2 howitzer, acquisition of the F-16 and TOW missiles, and upgrade of the HAWK air defense system, is projected to cost over $9 billion during the period 1982-1986. Half that amount is slated for procurement in the US.

To assist the defense efforts of this front-line ally, with whose troops American soldiers would fight side-by-side in the event of North Korean aggression, we provided a total of $220 million in FMS credits in FY-85 and are requesting $228 million in FY-86. Last year, the Congress approved 10 years' grace on repayment of principle and 20 years' repayment for Korea. This very welcome provision will allow Korea to devote a larger proportion of each year's allocation to actual purchases, thereby permitting the Force Improvement Program (FIP) to proceed on schedule. We are also requesting a slight increase in IMET funds, to $2.2 million, for professional and technical military training.

Our Korean ally is doing its utmost for its own security. It purchases annually from the U.S. about $500 million in military equipment over and above the FMS credit allocation. It is clearly in our interest to help Korea meet its force improvement goals and mutual security objectives. Given Korea's impressive economic and social progress, I believe time is on Seoul's side. I believe that helping Korea maintain a strong defense with adequate FMS credits is very much in our own interest.

THE PHILIPPINES

Our security assistance request for the Philippines is designed to address the critical needs of a key allied nation facing a combination of political, economic and security problems, as well as to support a vital defense relationship including key support facilities for U.S. forces. The basic framework for our request is a Presidential "best efforts" commitment made in connection with the five-year review of our Military Bases Agreement in 1983. By letter to President Marcos, the President indicated his intention to seek a total of $900 million in security assistance during the five-year period beginning in FY'85. Our security assistance thus relates closely to our ability to maintain unhampered use of Clark Air Base, Subic Naval Base and related installations, facilities that are crucial to our capability to protect the sea and air lanes of the region and to provide logistical support for US forces in the Indian Ocean and Persian Gulf.

Developments since the Presidential commitment was made have rendered the need for assistance all the more acute. In the wake of the Aquino assassination in August 1983, the Philippines plunged into its most critical economic crisis since World War II. Conclusion of a $615 million IMF standby arrangement involving stringent austerity measures and successful restructuring of public and private foreign debt represent crucial first steps toward economic stabilization.

However, the economic outlook remains bleak in the short-to-medium term. The Philippines registered negative real GNP growth of around 5.5 percent in 1984, with inflation of over 50 percent. Positive real GNP growth is unlikely to resume until 1986, and then only at a modest rate. The need to restrict government expenditures, curtail imports and service a large external debt will weigh heavily on the Philippines for the remainder of this decade.

As it seeks to cope with economic crisis, the Government of the Philippines also faces the challenge of a growing communist insurgency. The communist New People's Army (NPA) now numbers some 10-12,000 armed guerrillas and operates in rural areas throughout the country. The root causes of the insurgency are political and socio-economic, and must be addressed as such. At the same time, the insurgency poses a military challenge requiring an effective military response. Exchange shortages and budgetary restraints -- Philippine defense expenditures have declined by more than 20 percent in real terms since 1980 -- have severely restricted resources available to the Armed Forces of the Philippines (AFP) to play its role in a comprehensive approach to the insurgency.

The past year has seen important progress toward the revitalization of political institutions in the Philippines:

--The independent Agrava Board carried out an independent investigation of the tragic Aquino assassination, and 25 military personnel, including the Armed Forces Chief of Staff are now on trial for the crime;
--Presidential succession rules have been redefined;
--There is broad press freedom;
--A vigorously contested parliamentary election last May produced a strong and active Assembly and renewed opposition political activity.

On the economic front, we have seen acceptance of an IMF arrangement involving stringent austerity constraints, and beginnings have been made toward a program of structural reform.

Finally, we are encouraged by signs over the past few months that the Philippine military establishment and government leadership accept the seriousness of the insurgency and are taking steps to deal with it more effectively. Encouraging signs of military reform include:

--A new system to deal with military abuse cases;
--Some reorganization to deal with the insurgency;
--A more realistic set of military procurement priorities.
Our military assistance proposal is made in the expectation that these positive trends will continue and strengthen.

Our proposed assistance package for FY'86 is designed both to ensure fulfillment of the Presidential "best efforts" commitment and to address the seriousness of the problems now facing the Philippines. Including Development Assistance and PL 480, we have requested a total of $275 million in aid to the Philippines, $173 million of which is economic. We believe this balance well reflects current needs.

Our request for a total of $100 million in military assistance ($50 million MAP/$50 million FMS) aims at making up some of the shortfall in military assistance resulting from last year's Congressional action, when $45 million in proposed FMS for FY'85 was shifted to ESF. The Presidential letter specifies that a total of $425 million in military assistance ($125 million MAP/$300 million FMS) will be sought during the five-year period. With military assistance reduced to $40 million in FY'85, we need to begin to increase military assistance over the base-line level of $85 million if we are to fulfill the President's commitment during the five-year period.

Equally important in determining the level of military aid for FY 86 is the AFP's concrete need for such assistance if it is to mount an effective military response to the insurgency challenge. The reduced level of FY'85 military assistance will be almost totally absorbed by operations and maintenance costs in support of existing inventory. Serious AFP shortcomings in maintenance, logistics, transportation, communications and training that can only be overcome through adequate levels of foreign assistance. Over the next few years military assistance levels at least equal to those embodied in the five-year Presidential commitment are essential. Our IMET request of $2.25 million, aimed at improving the leadership and technical skills required for professional military performance, also addresses important AFP needs.

Our proposal that military assistance consist of equal portions of MAP and concessional FMS credits flows from current and projected international payments calculations. In FY'84 repayments of $50.5 million on previous market rate FMS credits exceeded new credits of $50 million. In the absence of Paris Club debt rescheduling, repayment obligations resulting from FMS credits would have again exceeded new inflows of military grants and credits in FY'85, and projected repayments are expected to reach $48 million in FY'86. This increased debt burden comes at an extremely difficult time for the Philippine economy, with its overall ratio of debt service to exports at around 50 percent prior to debt rescheduling. In this situation, the breakdown between grants and credits envisaged in the Presidential commitment simply is not responsive to current economic needs.

The severity of the economic situation also makes it imperative that ESF be maintained at the base-line level of $95 million. Given the Philippines' economic prospects for the next few years it is difficult to square anything less with our interest in that nation's economic recovery. Our ESF will be programmed in accordance with the basic premise that providing government services to address the economic and social conditions in rural areas which allow insurgencies to prosper is as least as important as military operations. ESF programming will continue to be linked with the overall development assistance strategy in the Philippines, resulting in a focus on agriculture and small and medium scale industrial development, and continued support for the creation of rural infrastructure. Decisions will be made in the context of a continuing policy dialogue with the Philippine Government on economic structural reform in coordination with other donor efforts.

In addition to security assistance related to our bases arrangements, we propose that Development Assistance be maintained at $36 million, roughly the same level as in previous years. We have also requested $7 million in PL 480 Title II to continue feeding programs that have been rendered even more important by the ravages of two typhoons that inflicted severe damage to the Philippines late last year. Last, but by no means least, we are proposing the institution of a new PL 480 Title I program of $35 million which will be directly linked to structural reform in the agricultural sector. Utilizing funds that may be made available from the Title I reserve in FYs 85 and 86, this new program will be used along with our development assistance to encourage the structural economic reforms that will be needed if the Philippines is to resume a path of sustained economic growth.

Our policy towards the Philippines rests on the premise that fundamental political, economic and military reforms are needed if stability is to be preserved and economic health restored. A central objective of our assistance is to contribute to the needed reform.

Mr. Chairman, a lot has happened in the Philippines in recent years. A key allied nation is deeply troubled on a variety of fronts. It is incumbent upon us to do what we can to help the Filipinos get through this difficult period while taking the difficult measures needed to lay the basis for future stability and prosperity.

THAILAND

Thailand is a close friend and treaty ally of the United States. The important relationship we have developed over the years is based on a shared commitment to the values of freedom and independence. In the spirit of mutual respect and shared obligations which exists between our countries, we propose to continue our assistance to Thailand's programs for economic development and armed forces modernization. In a broader context, our assistance is also viewed as a gauge of the reliability of our commitment to Thailand and our support for ASEAN generally. To maintain our interests in the region, we should help to sustain our friends.

On its eastern border, Thailand faces a strong On its eastern border, Thailand faces a strong, active military threat from a combat-hardened Vietnamese army. Vietnamese attacks on the Cambodian resistance groups have escalated since Vietnam invaded Cambodia in 1978 and incursions into Thailand and clashes with Thai troops have increased in number and severity. This threat has prompted an overdue modernization of Thailand's military forces. We support this modernization program which, in conjunction with other efforts, aims to provide a deterrent to further Vietnamese aggression. In order to enjoy a credible deterrent which will enable Thailand to become more self-reliant in an emergency, the Thai must be accorded continued high priority in the allocation of assistance.

Our overall assistance package is also important to Thailand's economic management. Although the Thai economy grew strongly for two decades up to 1982, the international recession has hurt traditional exports and slowed its growth. Foreign debt and the trade deficit have mounted. The Government of Prime Minister Prem has taken courageous steps to address these problems, including a major devaluation last November, but it faces a period of painful adjustments. The Thai government traditionally has managed to balance its allocation of resources, giving social and economic development a high priority while also providing for necessary military expenditures. Security assistance from the United States has helped the RTG maintain this balance in the face of growing demands on limited resources. Our economic assistance, while not large in terms of total resources, has been directed into sensitive priority areas such as the eradication of rural poverty.

For FY-86, we are requesting a slight increase in FMS funding for Thailand to $97.5 million from $95 million in

FY-85. In the face of the strains on the Thai economy caused by limited trade prospects and the need to establish a credible deterrent to Vietnamese aggression, however, we recommend significantly increasing the concessional element in our assistance package over FY-85 levels. We have requested that $40 million in FMS be provided at concessional rates while the balance of $57.5 million would be extended on terms providing 10 years' grace and 20 years repayment of principle. These funds will help finance a long overdue upgrading of equipment by all the services as well as purchases of necessary expendable items which will enhance sustainability.

Our MAP request is again for $5 million, and is intended to ease the cost to the Thai of necessary equipment purchases.

Our request for $5 million in Economic Support Funds, again straight-lined from last fiscal year, is directed to the Thai need for assistance in helping the war-torn rural communities along the Cambodian border. The spill-over of fighting into their homes and their livelihoods make the people in these communities deserving of special help and compassion. The unusually violent and widespread Vietnamese attacks along the border this year have enormously increased the problem and will require greater support from us in the near future. The ESF funds also contribute directly to upholding Thailand'shumane policy offering asylum to refugees and other displaced persons by assisting the Thai border villages affected by the refugee influx.

In 1986, we are requesting $2.5 million in IMET funds. These training funds have become all the more important as the Thai military absorbs more sophisticated systems with attendant challenges to technical competence and logistics support. The Thai consistently put this training to effective use to upgrade their capabilities in technical and command subjects.

Our development assistance request of $22 million shows a small decrease from last year. However, it represents an important contribution toward achieving Thailand's development goals and the maintenance of a healthy, balanced economy in the face of increasing security requirements. Working closely with the Thai government, the emphasis of our program has shifted as the Thai economy has changed. Our program will now emphasize two new areas - the creation of jobs in rural areas through the promotion of small industrial enterprises and assistance in the field of science and technology.

INDONESIA

The requested FY 86 security assistance program for Indonesia consists of $2.8 million in IMET funding, plus $34.5 million FMS direct loans at concessional interest rates. Concessional rates are considered necessary to assist Indonesia in recovering from the effects of the global recession in the early 1980's and to overcome serious budgetary shortfalls due to declining oil and non-oil export revenues in recent years. Uncertainties regarding oil and natural gas revenues, which account for more than 60 percent of the Indonesian budget, are expected to continue for several years and the Indonesian Government is expected to be hard-pressed. At the same time, the Indonesian Government has responded to the recession and declining oil revenues in a most responsible way by undertaking self-imposed austerity and reform programs. The Rupiah has been devalued by 30 percent, foreign exchange expenditures for development programs were cut in half, and the overall budget deficit as a percentage of GDP was also reduced by 50 percent. In addition, the government undertook a sweeping reform of the financial sector by removing interest rate and lending controls, increasing tax revenues and broadening the tax base, and reviewing regulations inhibiting the growth of the private sector.

Development assistance of $60 million is being requested for FY 86, a decrease of $5 million from the FY 85 level. Our budgetary constraints also have dictated a $10 million reduction in PL 480/Title I assistance to $30 million. PL 480 assistance to Indonesia continues to be a high priority because food stocks need to be maintained at acceptable levels in order to forestall hardship and public unrest, as well as provide for adequate emergency shipments of food to impoverished or disaster-struck areas. A PL 480/Title II request of $6 million supports voluntary agency programs and World Food Program operations.

Indonesia the world's fifth largest country, plays a key leadership role in both Southeast Asia and in the broader Pacific Basin. Its geo-strategic importance and hence its importance to the United States cannot be underrated. Indonesia is also an important leader in the Non-Aligned Movement and its role as a moderate in that forum is a valued one. Indonesia also ranks among the moderates in the Islamic movement and has played constructive roles in many international organizations. Development and security assistance to Indonesia is part of our strong support for the Association of Southeast Asian Nations, or ASEAN, which in our view represents the best hope for peace, stability and economic and social development in Southeast Asia. A consistent development assistance program for Indonesia is necessary to increase manpower and management skills, to advance agricultural research, to expand appropriate science and technology programs, to continue to upgrade Indonesia's educational system, and to promote the private sector's role in economic development.

Although Indonesia has wisely slowed the pace of its military force modernization in the face of recent and continuing economic problems, U.S. security assistance has helped to sustain a number of important programs, including aircraft maintenance and spare parts, ship overhaul and spare parts, improvements in air and sea defense systems, the purchase of war reserve munitions and, most importantly, advanced and specialized training for commanders and management personnel in the Indonesian army, navy and air force. Added emphasis this year is expected to be given to "train the trainers" programs which would measurably improve indigenous training capabilities.

Indonesia's military forces remain critically short of qualified technicians and program managers. U.S. training primarily will be in technical fields and the level of IMET funding requested should permit approximately 250 military officers to attend our armed forces schools in FY 86. IMET deserves the highest priority support because of the important role played by the professional military in the Indonesian society, the utility of the program in furthering our foreign relations objectives and the desirability of improving mutually beneficial service-to-service contacts.

MALAYSIA

Strategically located on the Malacca Strait, Malaysia's continued political stability and economic development are essential to U.S. interests in the ASEAN region. Confronted with the Vietnamese occupation of Cambodia and the consequent threat to regional peace and stability, Malaysia has been in the forefront of ASEAN's strategy to bring about a withdrawal of Vietnamese forces from Cambodia and a negotiated settlement ensuring the rights of the Khmer people. Beyond Southeast Asia, Malaysia is a responsible member of the Islamic Conference and Non-Aligned Movement and has played a constructive role in international affairs generally.

U.S.-Malaysian relations, founded on mutual respect and common interests, are very good and were enhanced further by the visit to Washington in early 1984 by Prime Minister Mahathir bin Mohamad. There have been subsequent exchanges of high level visitors, including Secretary of State Shultz last

July, and Deputy Prime Minister Musa Hitam in November of 1984. The Malaysians are interested in continued defense cooperation with the United States, taking into account Malaysia's non-aligned status, and U.S. security assistance is designed to augment their legitimate self-defense capabilities, thus contributing to the security of all of the ASEAN countries.

The $5 million FMS request level for Malaysia in FY 86 is designed to provide continuity in the program as Malaysian military planners consider force restructuring away from counter-insurgency to a more conventional force posture which will created new equipment needs. Although Malaysia has not in the past made extensive use of FMS credits, additional purchases are likely as its economy improves. Possible purchases including surveillance equipment, anti-ship weapons, and Sidewinder and Maverick missiles.

The IMET request of $1.1 million is a slight increase from last year, and is to some extent based on the increased cost of training. The IMET program provides an important means for the Malaysian armed forces to meet their training needs as they adjust to a more conventional force structure and acquire more sophisticated weapon systems. The Malaysian Government considers exposure to U.S. defense management, operational doctrine, and support concepts critically important to the modernization of its armed forces. Whereas Malaysia in the past has not made extensive use of FMS credits, the Malaysian armed forces are increasingly utilizing U.S. training in all areas -- equipment-related technological training, advanced combat training, management, and leadership development. Malaysia is expected to look to the U.S. to fulfill a significant portion of its external training needs for the foreseeable future.

SINGAPORE

Singapore plays an important role within ASEAN and occupies a pivotal strategic position in Southeast Asia by virtue of its location at the juncture of the Pacific and Indian Ocean. Singapore is a valuable port of call for U.S. ships transiting the Malacca Strait and offers important ship and aircraft support facilities. A non-aligned nation, Singapore plays a significant moderating role with the Non-Aligned Movement and in United Nations fora. Singapore has stood up forthrightly in opposition to Soviet actions in South and Southeast Asia, and Singaporean leaders have publicly called for the United States to maintain a continuing regional security role as a deterrent to Soviet expansionism. Additionally, Singapore has strongly supported ASEAN's strategy for achieving a political settlement of the Cambodian problem and an end to Vietnamese occupation of that country.

The purpose of the IMET program for Singapore is to provide this friendly country with access to our military schools system. For FY 86, we are requesting $75,000, which is an increase of $25,000 over FY 85, largely because of increased training costs in the U.S. and because more highly technical training may be sought, for example, in connection with Singapore's acquisition of the E2C surveillance aircraft. This modest amount of assistance serves to demonstrate our continuing commitment to Singapore's independence and security and in our interest in continued development of Singapore's small but highly proficient armed forces. The United States is an important source of military training doctrine and expertise, as well as a supplier of military equipment. Singapore's participation in U.S. military training programs is highly significant in creating and sustaining military-to-military relationships.

BURMA

We are pleased with the continuing upward trend in our relations with Burma. The Burmese Government, while firmly committed to nonalignment, pursues a foreign policy that is not incompatible with our own strategic interests in southern and southeastern Asia. Moreover, the Burmese leadership's gradual movement away from strict isolationism has led to increased contacts between our governments and to expanded bilateral cooperation in areas of mutual concern such as narcotics control.

Our principal objectives in Burma are to encourage the country's economic development and evolution into a politically stable society friendly to the West, and to assist the Burmese Government to suppress the flow of illicit opium and opium derivatives such as heroin from Burma to international markets.

Despite substantial natural resources, Burma ranks among the world's poorest countries. It has a *per capita* income of less than US $190, estimated foreign currency reserves of less than $30 million, and a debt-service ratio of well over 30 percent.

The $13 million in Development Assistance proposed for FY-1986 will enable AID to continue its support of Burmese efforts to improve rural primary health care, to increase agricultural research, and to improve oilseed production and processing to reduce Burma's dependence on rice exports to earn badly-needed foreign exchange. The AID projects, tightly focused on specific and achieveable goals, have been well-received by the leadership and people of Burma, and have contributed measurably to a strengthening of our bilateral relations that has included much closer cooperation in anti-narcotics activity in recent years.

Internally, the Burmese Government faces an array of insurgent and warlord groups, including the Burma Communist Party, that control large areas of the hinterland and finance themselves through narcotics trafficking and other forms of smuggling. The effectiveness of the Burmese military is the key to Burma's efforts to control these groups and their narcotics activities and, over time, to achieve stability and economic progress in the country.

The $1 million MAP grant proposed for FY-1986 will enable the meagerly-equipped military to strengthen its position against the insurgents, and contribute to the effectiveness of U.S.-Burmese narcotics control efforts. The proposed $300,000 for IMET will assist the Government to develop its own training capability while providing Burmese military officers direct exposure to American society and values. Because of the military's dominant role in Burma, this could have a favorable long-term effect on our bilateral relations.

PACIFIC ISLANDS

Our major concerns in the South Pacific islands are to support their remarkable achievements to date in building democratic institutions and to prevent their use for strategic purposes by outside hostile powers. World War II demonstrated the necessity for the latter policy. These islands lie across our lines of sea and air communication to Australia, New Zealand and Southeast Asia.

Since the war, these island states have undergone great changes, and in the past twenty years most have become independent states. Our relations with them are friendly; we share to a remarkable degree a belief in democratic government and devotion to individual liberties. It is in the U.S. interest to assist island governments in their efforts to promote economic growth.

For FY 1986, we have requested $5 million in Development Assistance to support a region-wide program with emphasis on improving agricultural rural development and fishing techniques, and to promote regional cooperation in this area of small populations and small markets. In addition, we are requesting approval for a modest bilateral assistance program ($1 million) for Fiji using Economic Support Funds. Our military assistance would consist of small IMET programs with a total dollar value of $275,000 for all of the Pacific Islands plus a small Map allocation to Fiji of $300,000.

FIJI

The 100,000 IMET program requested for FY 86 represents a straight - lining from FY 85's funding level. The money would assist the Royal Fiji Military Forces (RFMF) in acquiring needed professional and technical skills to better operate a small, but modern defense force. We are requesting $300,000 in MAP to assist the RFMF modernize its small arms. A functioning democracy and a leader in regional organizations, Fiji also makes important contributions to international peacekeeping efforts. The RFMF maintains two battalions of troops with the Sinai Multilateral Force and Observers (MFO) and the UN Interim forces in Lebanon (UNIFIL), more than are on duty in Fiji itself. Our bilateral relations are excellent. In 1983, Fiji re-opened its ports to all our U.S. Navy ships. Fiji has given the U.S. Government particularly strong support on a number of important international issues, including Grenada, the KAL incident, and Afghanistan.

PAPUA NEW GUINEA

The United States has enjoyed friendly relations with Papua New Guinea before and since its independence from Australia in 1975. The country's size, strategic location, and resources make it a major actor in the South Pacific.

Papua New Guinea maintains the largest defense force in the Pacific Island region. The proposed FY 86 IMET program of $75,000 represents an increase of $25,000 over last year's allocation. Papua New Guinea is expected to use its IMET grant to provide training in improving logistics, management and administrative capabilities, and search and rescue techniques.

TONGA

Tonga continues to be a reliable friend for the U.S. in the South Pacific. The Tongan Government has welcomed port calls by the U.S. Navy and has stated its willingness to host nuclear powered vessels even when other islands governments, concerned over an upsurge in public sensitivity to nuclear matters, have been reluctant to do so. The proposed FY 86 IMET program of $50,000 is the same as FY 85. The funds are expected to be used for training in management, and maintenance and repair skills.

SOLOMON ISLANDS

The Solomon Islands, independent since 1978, is the second largest of the Pacific island states in area and the third largest in population. Its foreign policy has been markedly pro-Western. The newly-elected government has been working with us to resolve the fisheries problems that developed in 1984. The Solomon Island continues to try to upgrade its rudimentary defense forces. The requested FY 86 IMET level is $50,000 and represents a $20,000 increase over the FY 85 allocation. Objectives of the program remain to assist in creating skills necessary for effective control and maintenance of security and management of forces.

TRUST TERRITORY OF THE PACIFIC ISLANDS

The United States has administered the Trust Territory of The Pacific Islands (TTPI) since World War II and, since 1947, under a Trusteeship Agreement with the United Nations. Since 1969, we have been negotiating with the leadership of the TTPI for new political relationships. In 1983, two of the island governments, the Federated States of Micronesia (FSM) and the Republic of the Marshall Island completed all the necessary procedure to enter into a new and unique relationship with the United States, that of Freely Associated States. The Administration is resubmitting the Compact of Free Association to this Congress in order to complete the process on our side and initiate the new relationship with FSM and the Marshalls. The Administration's target date for implementation of the Free Association relationship is October 1, 1985.

For FY 1986, we have requested $299,270,000 for the Compact upon the enactment of the necessary authorizing legislation.

The Compact will regulate the relationships between the United States and the Marshall Islands and the FSM. Under the Compact, the United States is granted full powers and authority for defense and security matters, including the right to establish military bases and support activities, throughout the freely associated states. The Compact specifies the amounts and attendant objectives and purposes of United States grant and service assistance to each of the freely associated states.

The overall policy goals of the United States with regard to the Compact are based on a review of United States policy by the Senior Interagency Group on Foreign Policy and were approved by the President on September 21, 1981. The Compact implements long-term United States national security requirements and provides the basis for the accomplishment of shorter term contingency basing and logistic needs. Another important policy goals of the United States is to see political stability in the freely associated states. The Compact accomplishes the equally important goal of political stability through provision of annual grant assistance.

The first year estimate exceeds by $153.1 million the second year estimate and exceeds by $143.5 million the average annual budget estimate. This is due to the inclusion of several one time payments, the most significant of which is a one-time $150 million payment to establish a trust fund for the settlement of all claims resulting from the United States Nuclear Weapons Testing Program in the Marshall Islands.

Regional Ecomomic Assistance

The administration's budget proposal has $19.5 million for the Asian regional program. This program includes funds for South Asia and East Asia activities of the American Free Labor Institute and a number of American private voluntary organizations, and provides some support to Peace Corps projects. It will also provide $4.5 million in technical assistance during FY 1986 to the small but significant regional assistance program we have established with the six governments of the Association of East Asian Nations - ASEAN. As a result of the regular high-level economic dialogues we hold with the ASEAN governments, AID has developed several high quality technical assistance projects that respond to specific regional needs. Projects supported by past funding have focused on health, education, agriculture, energy, and industry. This year we are seeking funding for a watershed management project that will assist in checking the serious soil erosion and water control problems facing these nations, an energy conservation and management project, and a human resources development program that will provide scholarships in a number of technical disciplines, including agriculture, health and nutrition, engineering, and management.

The regional program for ASEAN countries is part of a larger effort by several U.S. Government agencies and the U.S. business community to expand the areas of cooperation in culture, science, and technology between the United States and ASEAN. For example, the Food and Drug Administration has organized seminars on improving food quality contrls for canning industries and the U.S. Geological Survey provides advice and training in the quest for phosphate minerals. The U.S. business community, with some support from AID last year, has sponsored a new U.S.-ASEAN Center for Technology Exchange that recently began operations. With offices in each of the ASEAN countries, the Technology Exchange Center will be working closely with ASEAN and U.S. Chambers of Commerce in planning industry-specific seminars and field visits to the United States to meet the special requirements of small businesses in identifying the technology, the organizational skills, and the investment capital to create more product employment.

CHINA

Since 1982, the Administration has urged a change in foreign assistance legislation as it applies to China. I want to emphasize the importance that we continue to attach to this change, and I sincerely hope that action can be completed this year.

I noted last year that economic, scientific and cultural ties have become an important and mutually beneficial aspect of the U.S. relationship with China. Those ties continue to expand, and our commercial relationships offer particular promise. Since the establishment of diplomatic relations in 1979, trade with China has grown dramatically; last year, it recovered from a two-year slump and set a new record of $6 billion, approximately balanced between the two sides. High technology exports to China has been a particularly dynamic area -- we issued [illegible]00 license approvals for such exports last year, representing a 128% increase in just two years. U.S. equity investment in China may now reach $100 million, with several hundred million more invested by U.S. firms in petroleum exploration. Exchanges cover a broad range of activities -- over 150 Chinese delegations visit the U.S. each month, over 10,000 Chinese students study in the U.S., and 21 protocols under the Science and Technology Agreement promote valuable exchanges.

Our rapprochement with China over the past decade has also made important contributions to global and regional peace and stability. China shares our deep concern about Soviet aggression in Afghanistan and the Soviet-backed occupation of Cambodia. U.S.-China relations have meshed well with our existing alliances and security relationships in Asia and Europe. The exchange of visits last year between Premier Zhao Ziyang and President Reagan reinforced the stability and durability of the relationship.

In 1981, the President decided to seek legislative change to laws that link China with the Soviet Bloc. The proposal to eliminate the prohibition against foreign assistance to China received favorable consideration by this Committee in the authorization bills for FY 1983, FY 1984, and FY 1985, but the overall bill was not passed for reasons unrelated to China. This year we are again proposing legislation which would permit elimination of this prohibition. We have adopted the House Foreign Affairs Committee's language; even though it does not explicitly remove China from the list of proscribed countries, the amendment now proposed would nevertheless meet our objectives.

In seeking this amendment, our purpose has been to remove the negative symbolism of legislative language which continues to depict China as an unfriendly nation. We are not proposing a bilateral development assistance program for China. Should we decide to propose a program for China at any point in the future, it would only be after careful scrutiny within the Executive Branch, and would of course be subject to the authorization and appropriations process of the Congress.

In addition to removing an anachronism in our laws, amendment of the Foreign Assistance Act would allow China to participate in ongoing AID technical assistance programs, under current funding levels, in the same manner as do most other countries. Chinese participation in these programs will not threaten AID programs with other countries, but will contribute to China's development through existing AID research and training projects.

* * *

Mr. Chairman, last month Secretary Shultz, in his testimony before the Senate Foreign Relations Committee, reviewed this region's excellent progress and prospects while also noting the challenges and problems it must face. He concluded by observing that "we can be proud of the vitality of our alliances, friendships and productive ties in this promising region. If nations act with wisdom and statesmanship, we may well be at the threshold of a new era in international relations in the Pacific Basin."

The economic and security assistance program that we are proposing, and for which we urge your support, is essential for the realization of that goal.

PREPARED STATEMENT OF JAMES A. KELLY

Mr. Chairman,

Thank you for this opportunity to offer a Defense perspective on the Administration's FY 1986 foreign assistance request for East Asia and the Pacific. We in the Department of Defense are convinced that a strong, coherent, and reliable security assistance program, adequately funded by Congress, is an absolutely essential complement to our efforts to strengthen America's defenses. As a participant in the development of the Administration's foreign assistance request for East Asia and the Pacific and as a recent visitor to several of the key countries in the region, I have had an opportunity to review our programs first-hand. My conclusion is that the requested levels are fully justified. If anything, they are less than we really need because of our efforts to keep the requests to minimum prudent levels in view of economic constraints.

Mr. Chairman, too often the security assistance component of our foreign aid program is mistakenly viewed as merely some form of American largesse. Also, the relationship of security assistance to the presence of US forces in East Asia and the Pacific is not well understood. This misunderstanding of the purpose and function of security assistance invariably invades our discussion of US policy. Therefore, I wish to introduce my statement with the basics of US policy and defense strategy in the Pacific.

First, US forces are in East Asia and in the Western Pacific primarily to meet United States security needs and objectives. But US security is not separable from that of our friends and allies.

Moreover, we cannot maintain deterrence and safeguard the Free World's security by ourselves. It is therefore in our national interest to assist allies and friends in building their defenses against external aggression and internal conflict. Our security assistance program is the principal instrument for accomplishing this goal.

Security assistance is an indispensable tool of US foreign policy and an essential element in maintaining and strengthening our defense posture. Security assistance also helps us gain access to bases and overflight rights, improves our forward deployed defense capabilities, and enhances our defense industrial mobilization base at home. In sum, forward deployed US forces, effective US allies, and self-sufficient friends are the foundations of defense strategy in East Asia and the Pacific, and security assistance helps make this work.

Our system of deterrence and defense in East Asia and the Pacific is necessary because, during the past decade and a half, the Soviet Union has steadily improved its military capabilities and sought to expand its influence throughout the region. 1984 saw a continuation of the growth of Soviet power in Asia and the Pacific. In addition to intercontinental ballistic missile increases, the Soviets increased the number of intermediate-range SS-20 missiles in the Far East. The Soviet Navy deployed a second aircraft carrier and another Ivan Rogov-class landing ship to the Pacific. The Soviet Air Force continued important qualitative improvements to tactical aircraft based in the Soviet Far East.

Perhaps most significant, last year the Soviets improved their military base at Cam Ranh Bay, Vietnam to the point that it is now the largest Soviet forward deployment base and staging facility outside the Soviet Union. The Soviets have invested heavily in new and improved airfield and port facilties at Cam Ranh Bay, indicating that they intend a long term presence. Approximately 30 naval units operate daily in the South China Sea, including surface combatants, conventional and nuclear powered submarines, and naval auxiliaries. Soviet long-range TU-95 BEAR reconnaissance aircraft maintain a constant presence at Cam Ranh Bay and are periodically detected operating over sea lanes in the South China Sea and Philippine Seas. Last year the Soviets increased their TU-16 BADGER strike aircraft at Cam Ranh Bay and they have recently added a squadron of Mig-23 FLOGGER fighter aircraft. Soviet signal intelligence facilities in Vietnam, combined with reconnaissance aircraft operating from Cam Ranh Bay, provide Soviet forces with significant capabilities to monitor US military activities throughout the region. Operating from their bases in Vietnam, Soviet air and naval forces could strike US military units and facilities in the Pacific as well as interdict sea lines of communication in the South China Sea.

The increased use of port facilities in Vietnam has also enhanced Soviet capability to deploy forces to the Indian Ocean and has augmented Soviet strategic mobility in the Indian Ocean area. The facility at Cam Ranh Bay complements Soviet logistical use of such locations as Dehalak Island, Ethiopia, the port of Aden in the People's Democratic Republic of Yemen (PDRY), and Socotra anchorage off the PDRY coast. The use of Cam Ranh Bay as a logistic and staging base shortens the time needed to reinforce Soviet naval units in the Indian Ocean and, at the same time, enhances the Soviets' ability to interdict the sea lines of communication between the Pacific and Indian Oceans.

Soviet allies in East Asia maintained their aggressive posture in 1984 as well. North Korea, which still spends more than 20 percent of its GNP on defense, moved additional combat forces forward close to the DMZ area. Vietnam's occupation of Cambodia continued to be a major problem in the region. In November Vietnamese troops began their most aggressive dry season offensive since they invaded Cambodia in 1978, and have thus far overrun numerous refugee camps on the border with Thailand.

To safeguard our interests in the region we have adopted a defense strategy which stresses reliance on our own forward deployed forces. U.S. interests and commitments and the threats we face require that we continue substantial forward deployments in Asia and the Pacific. The proximity of Soviet forces to our allies and interests in the region means we must be able to respond rapidly and effectively. Forward deployed forces give us this capability. They enhance our deterrent, reassure our allies, and provide a more stable international environment for constructive diplomacy.

A key element in our defense strategy in Asia is a system of effective bilateral alliances. We cannot maintain our security, safeguard the vital sea lanes, and ensure regional stability acting alone. Our alliance system, moreover, enables us to share our security burdens and achieve a level of deterrence and a quality of defense otherwise unattainable. Effective alliance security requires that national forces be equipped and trained to be able to fight together in combined operations if deterrence were to fail. This, in turn, requires a coherent program of security assistance and sharing of key technologies so that each partner has the means for improving his capabilities for working with US forces.

With this as prologue, Mr. Chairman, I would like to review briefly our major defense policy concerns with respect to individual countries in the region.

Our most important defense relationship in Asia and the Pacific is with Japan. Although Japan does not receive direct security assistance, its importance requires mention here. Our Treaty of Mutual Cooperation and Security of 1960 is the basis of our shared responsibilities.

Japan has stated as national policy that it intends to defend its territory, air space and sea-lanes to 1,000 miles. Such capability would greatly help Japan and complicate Soviet planning -- thereby aiding deterrence. It would also allow U.S. forces to operate more flexibly throughout the Pacific. At about $13 billion, the Japanese defense budget for 1985 is over five percent larger in real terms (6.9 percent nominal) than the 1984 budget. The Japanese also provide direct support to our forces in Japan, spending about $1 billion per year in their behalf.

Nonetheless, Japan needs to improve its readiness quickly and significantly and to improve its air and naval defense capabilities - its own goals - if effective self-defense is to be achieved in a reasonable period. The 1985 budget increase is not sufficient to solve these problems as quickly as we believe necessary. Prime Minister Nakasone is convinced of the necessity to do more, and we feel that encouraging his efforts is the most beneficial course for us to pursue.

Nowhere in the region is there a better example of successful US defense and foreign policy than Korea. We have a vital interest in maintaining peace and stability in Northeast Asia. Renewed conflict in Korea would involve incalculable risks for the US, Japan, China, and the Soviet Union. Joint US-Republic of Korea (ROK) efforts have deterred the North Koreans for more than 30 years. Our support to the ROK under the Mutual Defense Treaty of 1954, especially the stationing of US ground and air forces in Korea, has played a key role. Were deterrence to fail, these US forces would be engaged immediately alongside ROK forces under the only combined US/Allied command outside NATO. Our security assistance goal is a ROK military capability which, when complemented by the US military presence, will deter and effectively defend against an attack by the North.

The ROK has been unable to match the massive North Korean military buildup, despite devoting almost six percent of its GNP to defense. In fact, defense spending accounts for approximately one-third of the ROK's budget, or about $4.5 billion. Our $228 million in security assistance to Korea - all of it in loans at market interest rates - equates to only five percent of the ROK defense budget, and over 25% of that defense budget is spent in the U.S.

Korean modernization requirements could easily justify FMS credit levels much higher than those requested. But higher levels are not possible in the face of competing worldwide security assistance needs. Our inability to achieve the higher levels needed makes it all the more important that we provide the relief sought in the form of extended repayment terms. Last year Congressional authorization of 10 years grace/20 years repayment terms for Korea enabled more of the Korean budget to be spent on needed equipment instead of debt service.

China's decision in the 1970's to pursue its modernization goals as responsible member of the international system has made it possible for us to seek a friendly and enduring relationship with Beijing. This is not an alliance relationship, but rather a recognition of both our common interests and our differences. We also want to contribute in a responsible way to China's modernization, including defense modernization, but we want to do so in ways which do not threaten our own security or that of our allies and friends. No security assistance is requested for China, but it is useful to summarize the steps in our defense relationship.

During Secretary Weinberger's trip to the PRC in September 1983, we agreed with the Chinese that our defense relationship would be composed of high level dialogues, military exchanges and military technology cooperation talks. In 1984 four military exchanges involving training and logistics delegations were conducted. Exchange visits by senior leaders include the visit of PRC Defense Minister, Zhang Aiping, to the US in June 84, the visit of Secretary of the Navy Lehman to China in August and the visit to China last month by General Vessey, Chairman of the Joint Chiefs of Staff, and Admiral Crowe, our Pacific Commander.

Since early last year we have engaged in discussions with representatives of the People's Liberation Army on the subject of military technology cooperation. These discussions have focused on possible US FMS cash sales to China. Our policy on arms sales and technology transfer has been that we will consider China's requests on the same case-by-case basis as we do for any other friendly, non-allied country. The discussions are continuing, but no significant sales have been concluded.

In Southeast Asia the people of Cambodia continue to suffer under a brutal military occupation by the Vietnamese army. The recent offensive against the Cambodian resistance and the 250,000 Khmer civilians who have sought refuge along the Thai-Cambodian border from Vietnam's occupation of their country belie Hanoi's public claims that it seeks a political solution in Cambodia and improved relations with other countries, including the U.S. and its neighbors. Equally distressing is the fact that Vietnam has again violated Thai sovereignty by incursions into Thailand.

We support Thailand and the other Association of Southeast Asian Nations (ASEAN) members in their efforts to achieve a peaceful resolution of the Cambodian problem. Unlike Korea, where American military presence is the primary symbol of our commitment, the main symbol for our Southeast Asian front-line ally, Thailand, is our willingness to provide security assistance. In the face of the serious military threat confronting Thailand, we have emphasized our firm and strong commitment to that nation's security and welfare. An expedited shipment of US military equipment and supplies -- armored vehicles, artillery and other priority items needed to strengthen the Royal Thai Armed Forces -- is now underway and is expected to arrive in Thailand in mid-April. We have also explored with the Thai Government ways to strengthen further the logistics relationship between our two countries. We will be moving ahead with our programs to help strengthen Thailand's ability to defend itself.

We strongly believe that Thailand's independence, integrity and stability are crucial to the overall stability of Southeast Asia. Our security assistance program is intended to help the Thai meet regional threats, as well as defend their borders against Vietnamese aggression. Inadequate security assistance could imperil our staunch ally, Thailand, and undermine the ASEAN strategy for a negotiated solution in Cambodia by calling into question our reliability and sending the wrong signals to Moscow and Hanoi.

We are deeply concerned about the deteriorating economic and security situation in the Philippines. Political violence, criminal lawlessness and severe economic dislocations challenge the public order. Moreover, the rapidly growing communist insurgency, in particular, presents a serious threat to the Philippine Government and the future of the nation. We do not believe, however, that reducing or eliminating security assistance will contribute to the amelioration of these conditions. On the contrary, such an action is likely to have an opposite effect, severely handicapping the Government in its efforts to resist the insurgency and to eliminate the circumstances which breed disaffection. At the same time, such a course would be construed by the Philippine Government as a rejection of our pledge of assistance made at the time of the 1983 military bases review.

The reversal of current trends in the Philippines will not be an easy task. In the Armed Forces of the Philippines, resource and leadership problems have too often thwarted progress against the military aspects of the insurgency. Budget cuts have seriously degraded the AFP's capability to perform the basic tasks required of any military organization: to move, shoot, and communicate, and to sustain itself. Resource shortages, combined with leadership failures and deficiencies in training, have contributed to breakdowns in discipline which have diluted combat efficiency and led to abuses of civilians' rights. The Philippine Government now recognizes the seriousness of the threat, however, and has begun to respond in a positive manner to the problems which beset the country. Recent Government initiatives in the area of military, political, and economic reform hold the promise of progress in the restoration of democratic institutions, revival of the economy, and reduction of domestic violence.

For the coming fiscal year, Mr. Chairman, we are requesting an increased level of security assistance - from $85 to $100 million, with some important changes in proposed "mix." We are encouraged by certain military developments and initiatives in the Philippines - including progress in curbing abuses and in making counterinsurgency operations more effective - and we anticipate continued progress. The funds we request are to ensure that the difficult financial situation of the Philippines does not impair the vital efforts to control the communist insurgency. Assistance requested will be for essential and basic items - major investment in equipment for external defense will not occur.

We believe that the Armed Forces of the Philippines benefits from a solid cadre of loyal, professional officers who are capable of correcting the internal problems of the military and aggressively pursuing a successful counterinsurgency strategy. The time has come to signal our support for the efforts undertaken and results obtained thus far, even as we await further progress from these efforts. The $25 million increase in the MAP portion of our aid package is intended to ease the financial burden on the Philippines, to encourage the energetic implementation of military reforms, and to support prosecution of the military component of the national counterinsurgency effort.

It is particularly important to recognize that, by authorizing the full amount of this request, you give us the single most effective tool in pursuing these ends. The availability of the security assistance package registers our endorsement of the reforms announced by the Philippine Government and provides a clear impetus for their implementation. We will still have the administrative flexibility to regulate the disbursement of funds authorized for FY 1986 in relation to the developing situation in the Philippines. If the Congress fails to authorize these funds, however, our latitude and influence will be severely constricted -- regardless of any progress the Government of the Philippines might make in resolving its present difficulties. Moreover, failure to fund the security assistance request for the Philippines will perpetuate the severe materiel shortages which might well tip the military balance in favor of the Communists, whether or not the Government is successful in implementing military reforms.

The members of this Committee know well the critical importance of the Philippines to our global defense posture. Our unhampered access to the air and naval facilities at Philippine bases is essential to our strategy of forward deployed forces in the Pacific and Indian Oceans. We are at a crucial moment in the history of Philippine-US relations. It is incumbent on us to recognize the salience of this fact and to act in a manner which will support the Philippines in its efforts to resolve its serious problems. The Philippine Government understands the need and the problems that exist, and the challenge to its own military professionalism. Our FY 1986 security assistance request represents our best opportunity to foster constructive change. We cannot afford to lose the advantage of the moment.

Mr. Chairman, security assistance is an indispensible component of our efforts to strengthen Free World defenses against growing threats to world peace and security. In East Asia it is a particularly vital part of our bilateral security relationships with the countries of the region. We believe that the levels requested are the minimum support we can prudently provide to the defense improvements and modernization of recipient countries' armed forces in view of U.S. commitments in the region and the nature of the threats posed by Vietnam, North Korea and the Soviet Union to regional stability and peace.

PREPARED STATEMENT OF CHARLES W. GREENLEAF, JR.

Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to appear before you to present A.I.D.'s budget request for East Asia for FY 1986.

U.S. Interests

A.I.D. assistance proposed for East Asia includes five bilateral programs --- Thailand, the Philippines, Indonesia, Burma and a new program in Fiji. It also includes a regional program for the South Pacific and an Asia regional program: aid to the Association of South East Asian Nations (ASEAN) comes under the Asia regional program.

Historically, the East Asian nations have generally followed sensible economic development policies, have used economic assistance wisely, and have achieved major economic improvements. The 1983 growth rate of 7.1 percent equalled that of the 1960-1970 decade of solid growth. Further, the value of U.S. trade with all of Asia now outstrips our trade with Europe. But all of the East Asia nations still face major problems of poverty with its implications for economic, social, and political stability. Despite the growth of recent years, the per capita GNP levels of several East Asian countries remain relatively low.

Levels of Aid

Total assistance requested for East Asia and the Pacific is $320 million. Our Development Assistance request is $141 million for major programs in Indonesia, the Philippines, and Thailand, with smaller programs in Burma, the South Pacific, Fiji, and ASEAN. ESF funding of $101 million is also requested, for development-oriented programs in the Philippines, Thailand, and the new small request for Fiji. In addition, $78 million in P.L. 480 is programmed in A.I.D.'s Philippine and Indonesia country strategies to help achieve developmental objectives in conjunction with other programs.

A.I.D. Priorities

Poverty alleviation and the support of U.S. national security interests are the underlying purposes of the A.I.D. program in East Asia. These concerns are met through adherence to Agency and Bureau strategic plans, which cover the period FY 1985 through FY 1989.

The Asia Bureau Strategic Plan targets two sectors where U.S. expertise and resources are likely to have maximum impact: agriculture and population/health. The Asia Bureau Strategic Plan also underscores four cornerstones of Agency policy. These cornerstones were adopted at the beginning of the Reagan Administration.

First, we are emphasizing technology transfer, as contrasted with capital assistance. Science and technology initiatives, for instance, constitute a major thrust within the Thailand program.

Second, our strategy gives impetus to more intensive and creative efforts for private enterprise programming. Country-specific private enterprise development efforts are under way in Indonesia, Thailand, the Philippines, and ASEAN, and other projects are being designed for the South Pacific and Thailand.

Third, we are committed to continued economic policy dialogue and reform. A.I.D. assistance to the Philippines, for example, emphasizes the need of policy reform, particularly in the agricultural sector.

Fourth, we are committed to building sustainable, effective institutions. A.I.D. assistance in agricultural research has played a key role in the development of a number of strong institutions, ranging from the International Rice Research Institute in the Philippines to national-level agricultural research institutions in that country and in Indonesia.

Working together, A.I.D. and the host countries have made progress. Still, the continuing problems of poverty will require our sustained assistance for the foreseeable future.

Philippines

In the Philippines, a major country of strategic interest in East Asia, we are requesting $36 million in DA, $95 million in ESF, $35 million in P.L. 480 Title I, and $7 million in P.L. 480 Title II. A few comments are appropriate on how we set the respective levels for ESF, DA and PL 480 in our FY 1986 budget request.

The $95 million for ESF represents the Administration's judgment on economic requirements for the FY 1986 portion of the President's best efforts pledge conveyed to the Philippine Government at the time of the 1983 review of the Military Bases Agreement.

The DA level at $36 million reflects overall budget austerity in this account. However, we believe it is sufficient to support private sector development channels -- such as the private voluntary organizations -- and contribute to our objective in encouraging public sector development efforts and economic reforms.

Our PL 480 Title I budget request for FY 1986 is $35 million. This new request, as well as possibly higher allocations we may be prepared to consider if overall budget and worldwide food aid requirements permit, will depend upon agreement being reached on an attractive package of self-help measures in agriculture. The Title II level of $7 million in FY 1986 is consonant with the phase-out strategy adopted jointly with the Philippine Government several years ago. Nevertheless, given the recent sharp escalation of socioeconomic hardships in the Philippines, we are re-evaluating phase-out timing.

A.I.D. Program

All of our modes of assistance to the Philippines are being programmed in a coordinated fashion to support our overall policy goals. The bulk of our DA program in FY 1985 and, prospectively, FY 1986, as well as a possible new PL 480 Title I program, is oriented to supporting fundamental sectoral adjustments in agriculture as discussed above.

We are very mindful of President Reagan's commitment under the 1983 Military Bases Agreement review to a five-year ESF program in the Philippines. We intend to maintain ESF levels as agreed. How and for what purposes ESF funds are used, however, are matters for negotiation and will be influenced by the evolving economic policy environment in the Philippines.

Our continuing Title II grant program attests to the importance we place on meeting humanitarian needs, particularly in feeding programs administered by voluntary agencies.

While we are relating our bilateral program to the purpose of policy dialogue, we also are continuing our commitment to helping the Filipinos more directly reduce critical social and human needs problems.

Our program also continues its focus on tackling local problems which directly affect the livelihood and quality of life of the Filipino people. We plan a new FY 1986 ESF Local Government and Infrastructure Development project to strengthen the institutional capabilities of local governments and communities to plan, implement and maintain productive infrastructure such as roads, markets, and small irrigation schemes. This activity will build upon lessons learned from A.I.D.'s DA-funded provincial development and local resource management projects and the roads and schools activities under the first ESF program.

We also plan to work, perhaps in conjunction with the World Bank, on strengthening rural financial markets. While having a broad sectoral impact, this program would also focus directly on the farmer's and small entrepreneur's frustration in gaining access to productive inputs and the capital to finance them. I should point out that this type of program will seek to reduce or eliminate rural credit subsidies, and place the entire system on a much more solid financial foundation.

Stabilization Program

A number of events have taken place recently which bear on the formulation and implementation of our Philippine aid program. The Philippine Government and Central Bank have formally freed exchange rates and allowed the peso to float. The tax base has been broadened. Budget cuts have amounted to 30 percent overall in FY

1985, with special impact on public corporations which have proliferated in the past decade. Sharp limits on the money supply and tightly rationed credit began to put a brake on inflation, which had risen as high as an annual rate of over 60 percent last year.

These are all tough measures, and have caused real but probably unavoidable hardships for many people in the Philippines. Nonetheless, the collective effect of these developments should ultimately enhance the income-earning potential of the broad base of farmers and other Filipinos who derive their livelihoods from the country's resource endowment.

Economic Policy Reform

We are urging the GOP to help ensure farmers a fairer price for their products. The staple commodities of rice, wheat, and feedgrains are still subject to controlled markets, and the distribution and pricing of production inputs such as fertilizer and credit are still distorted by systems of subsidies, controls, and protectionism.

Policy and institutional reforms in the coconut and sugar sectors are important litmus tests for whether a more self-sustaining and equitable economic regime is being put in place. We plan to wait and see the detailed arrangements for implementing recent Presidential decrees reorganizing the sugar and coconut industries before we can analyze whether producers are likely to really benefit.

Program Management

One area of program management merits special comment. The Philippine Government's management arrangements for the ESF program have changed somewhat. The planning, administration and monitoring secretariat for the program was moved last fall from the Ministry of Human Settlements to the Office of the President. Mrs. Marcos has continued as chairman of the ESF policy council, although co-chairmanship now rests with the National Economic Development Authority, the principal government planning body. It is too soon to say whether these changes will result in smoother program implementation, but we have noted a marked improvement in local currency disbursements in recent months.

A.I.D. continues to monitor the Philippines program closely, through review of financial and implementation records and reports; project and program evaluations; on-the-ground inspections and implementing advice by a team of engineers and project development officers; and independent audits by our Inspector General's Office. We also have the right of refund for any monies not used according to agreed-upon purposes. The last ESF program audit, specifically of the schools project, scrutinized the effectiveness of internal controls over local currency disbursements for sub-project activities. There was no evidence to suggest misappropriation or misapplication of funds.

Indonesia

Our Indonesia request is for $60 million DA, $30 million in PL 480 Title I and $6 million in PL 480 Title II. The A.I.D. program focuses on: (1) increasing and diversifying food production; (2) improving watershed management and upland crop development; (3) improving primary health care and continuing family planning development; (4) expanding off-farm employment through private enterprise development; and (5) strengthening managerial and technical skills of selected institutions and staff in these sectors.

With careful economic management and implementation of economic policy reforms, Indonesia has recovered from the severe balance-of-payments deficit of 1982 which resulted from falling oil revenues. The GOI maintained budgetary restraint during 1984, introduced new monetary policy instruments to give the Central Bank greater control, and took limited steps to simplify business and industry licensing. As a result, the current account deficit declined from nearly $7 billion in 1983 to $4.2 billion in 1984, and is expected to decline further in 1985. Growth in GDP was about 4.5 percent for 1983-84. Foreign exchange reserves have reached $10 billion, approximately a four-month supply.

These achievements have been made in large part by slowing of expenditures on major capital projects, however, which will adversely affect future development. Agricultural production this past year reached record levels, but industrial growth remains sluggish. Economic stability has not yet been attained, due to the continuing uncertainties about agricultural production and continued reliance on oil revenues to drive the economy.

Thailand

We are requesting $22 million in DA and $5 million in ESF for Thailand. Our Development Assistance program supports the country's development policies particularly in two major fields: scientific and technological research and industrial development for rural areas. The ESF funds support villagers in rural communities affected by fighting on Thailand's borders with Laos and Cambodia.

Thailand experienced economic adjustments in 1984. The government put into effect a number of restrictive monetary and fiscal measures designed primarily to stem a record-shattering trade deficit that reached $3.9 billion in 1983. These measures included limiting total imports, clamping down on the growth of commercial bank credits and the government budget, and devaluing the baht late in 1984. Despite these measures, official Thai estimates are that the GDP grew by about 5.6 percent in 1984, compared to 5.9 percent during the previous year.

The devaluation in November 1984, on the order of 15 percent, was acclaimed by most observers, including the IBRD, as healthy and somewhat overdue. In the immediate wake of the devaluation, however, the Thai Government is threatened with close to a $2 billion budgetary deficit during the current fiscal year, with 20 percent of that figure directly attributable to revenue shortfalls resulting from the devaluation.

To counter the projected increase in the deficit, the Government has called for an across-the-board budget cut this fiscal year and has proposed a zero nominal budget expenditure growth for fiscal 1986.

The population growth rate has declined to an estimated 1.6 percent during the past three years, in large part because of Thailand's National Family Planning Program. Assuming present momentum is maintained, Thailand should reach its Fifth Development Plan target of 1.5 percent population growth by 1986.

Burma

Our request for Burma is $13 million, for a DA program focused on the key areas of maize and oilseed production, to improve rural incomes and nutrition; and primary health care, to reduce childhood mortality and disease.

Edible oils are second only to rice in importance in the Burmese diet. Achieving self-sufficiency in edible oils is a high priority in Burma's agriculture sector. Our project in this area has increased both the total production and yields of maize and oilseeds, using U.S. commodities and technical assistance.

Burma's economic performance continued to weaken during 1984, with real GDP growth estimated to have declined to about one percent. A deteriorating balance-of-payments situation has resulted in a decline of foreign exchange reserves to $80 million, or enough to finance imports for only 1.5 months.

Other pressing economic issues include insufficient domestic energy resources and a growing debt burden that has caused Burma not to accept any new development loans.

South Pacific and Fiji

For the South Pacific Regional program, we are requesting $5 million in Development Assistance, for a modest program largely carried out through private voluntary organizations, the Peace Corps, and regional organizations. We are also requesting a small bilateral program to begin in Fiji in FY 1986, with $0.5 million DA and $1.0 million ESF. The decision to begin a bilateral program in Fiji was made for foreign policy reasons, and concided with a review of the South Pacific portfolio. Although the precise nature of the new program has not yet been determined, the program will probably consist of projects in agriculture and/or health.

The island nations included in our South Pacific regional program have economies dominated by agriculture, primarily subsistence agriculture. Given their small domestic markets, these countries are highly dependent upon external markets for their primary products. Modernization has escalated balance-of-payments problems as demand for imported goods and petroleum products increases while world prices for commodity and mineral exports remains low. Without agricultural diversification and increased production, improvement in export earnings and GDP is unlikely.

ASEAN

For the regional Association of South East Asian Nations (ASEAN) program, we are requesting $4.5 million in Development Assistance, focused on human resources development and on research in watershed management and energy conservation. This aid to ASEAN is part of our $19.5 million request for the Asia regional program.

The six ASEAN countries (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) are of growing importance to the U.S. Taken together, the ASEAN countries constitute our fifth largest trading partner. U.S. trade with ASEAN grew 11.5 percent in 1984 over 1983, with ASEAN buying almost $10 billion worth of American goods--more than 4 percent of our total exports. Two-way trade between the U.S. and ASEAN exceeded $22 billion in 1983 and grew at a rate of 13 percent through November 1984. Under the ASEAN program, A.I.D. funds programs which help ASEAN small and medium businesses to serve their national and international markets.

Conclusion

There have been notable improvements in East Asia over the past ten years. Still, hunger, disease, and poverty remain. A.I.D.'s program in East Asia is designed to reduce these problems while supporting U.S. foreign policy objectives.

I appreciate the opportunity to appear today. I look forward to answering your questions.

Senator **Murkowski**. Thank you very much, Mr. Secretary. I have a number of questions that I want to pursue. Perhaps initially I will go to your recommendations within the area of your responsibility.

You indicated that the recommendation for Korea for total FMS which was under the conventional loan program, $220 million, and there has been no grant aid requested or authorized for either fiscal 1985 or 1986, that there are no concessional requests by Korea, and you cited the rationale of the Administration as the significant threat from North Korea.

I would say this. In view of the fact that Korea currently has a trade imbalance with the United States of somewhere between $4.1 and $4.5 billion, I would like the record to note that I think Korea probably represents more than any other nation the success of American foreign policy.

Still, is there any recognition given to the increased prosperity of a country? In the Korean case, unlike the others in your particular area, it would appear that what we are doing currently is simply lending them money with the assurance that they will have to make purchases of our military hardware, because that is the condition under which we make that category of loans.

My question is this. Is it not reasonable to assume they might make those purchases anyway if they see fit? They are paying a market interest rate, so there is no particular concession or enhancement there.

And if one looks at the spread sheet that I have before me, you would find that out of the proposed $220 million worth of loanable funds they are going to pay $105 million back in accrued interest this current year, and in addition they have a total debt of over $40 billion. I just pose the question to you. When we look at Korea, we cannot compare the process or the prosperity with some of the other countries in the area, nor can we compare these with any of the considerations that we have given in the broad area of foreign assistance.

Let me first refer to the question of trade imbalance. We are Korea's largest customer, yet we are providing them with $220 million worth of loans at market rates so they can buy military hardware from us.

Mr. WOLFOWITZ. Well, certainly in terms of the trade balance, the effect of those loans, if anything, is to help us improve the balance. I cannot tell you exactly what Korea's procurement would be in the absence of those credits, but I assume it would be, if anything, lower.

The fact is, the Koreans, as I mentioned in my opening remarks—and we can get the exact number for the record, or Mr. Kelly may have it—buy roughly $500 million a year in military equipment here in the United States, so our credits are helping them pay for only less than half of that amount, and I say helping them pay because in the end they will pay, as you have acknowledged.

These are loans on commercial terms. The Koreans will pay them back. But it is in our interest to help them get over a period of the next few years when on the one hand they face a very serious military threat and they need to do something to respond to it, and on the other hand to pay it back in the future when, given their kind of growth rates, it will be far easier for them to bear the burden of payment at that time.

Senator MURKOWSKI. How many troops do we have in Korea?

Mr. KELLY. We have about 40,000 soldiers, airmen, and sailors, Mr. Chairman. The ROK, of course, has an army of over 550,000 soldiers, and they contribute in part to the support of our forces in Korea.

Mr. WOLFOWITZ. Mr. Chairman, if I might add one other note which I think is relevant, we terminated our economic assistance to Korea only a few years ago, in 1981. During the period from 1946 to 1981, 35 years, we provided to Korea roughly $6 billion in economic assistance.

I think it is interesting as a point of comparison to note that each year now we are selling roughly $6 billion of American exports to Korea. It really is a success story. I think it demonstrates at least in this case, and there are a few others which happen to be in Asia as well, that because of the way these countries grow, because they become stronger in the long term and can pay us back in the long term and can buy from us in the long term, what we are doing is not only good short-term security policy, but it is a good investment in the future.

Senator MURKOWSKI. I do not dispute that. But by the same token I would remind you of the balance of payments deficit that is still in existence and growing between the United States and Korea. I do not mean to overemphasize Korea in a negative sense by any means, but it is a reality.

Mr. Secretary, the current debt repayment on Korea is specifically what?

Mr. **Wolfowitz**. I have total figures on all——

Senator **Murkowski**. Excuse me, but I am more interested in the term. How is the debt to be repaid?

Mr. **Wolfowitz**. There is 10 years' grace and 20 years' repayment.

Mr. **Kelly**. That is on new debt, Mr. Chairman.

Senator **Murkowski**. Then the old debt is what?

Mr. **Kelly**. It is, I believe, on two different terms, Mr. Chairman. Most of it is on the 12-year period, which is 5 years' grace and 7 years' repayment

Senator **Murkowski**. So the old debt is on 5 years grace. You do not have to do anything for 5 years?

Mr. **Kelly**. Except pay interest, sir.

Senator **Murkowski**. And then you start paying your principal in the 6th year, and now this time in 1986 fiscal year you are asking for 10-years grace and 20-year payback, for a total of 30 years? What is the justification for that request?

Mr. **Kelly**. The justification for that request, Mr. Chairman, for the 10–20 terms for Korea has to do with the overall debt structure that the Republic of Korea has with us, as well as a peak period of military needs that exists now and over the next several years.

The Republic of Korea makes a point to us that with the Asian games coming up in 1986, the Olympics in 1988, with the very serious North Korean buildup that has taken place and which I describe in the statement, there is a peak need for military acquisitions right now.

And, therefore, the 10-year grace allows them the opportunity to obtain more than they would otherwise.

Senator **Murkowski**. I find that extraordinary, because the Koreans have not drawn down their total appropriation in each of the last 2 fiscal years.

Mr. **Kelly**. I will check my numbers, sir.

Senator **Murkowski**. I have the numbers in front of me, and it indicates that they have not drawn down in either year, but have a pretty healthy FMS balance. As a matter of fact, they have approximately $400 million left in 1984, and a little over $100 million left in FMS appropriations.

The point, though, is this. When you give me an explanation with regard to Korea's current needs to buy more for the immediate threat associated with the Asian games and the Olympics, which I do not necessarily disagree with by any means, I do not see what that has to do with the extended repayment schedule.

The extended repayment schedule has to be based, I would think, on some sound reason that indeed it is in Korea's best interest and ours to extend that repayment period. I fail to grasp from your explanation why it is necessary in the case particularly of Korea to give them an extended repayment program.

In addition, if we recognize when you do this, recognizing the realities of inflation, you are paying this back with cheaper dollars. Each time you go out, if you make the assumption you are going to continue to have inflation, then it is in the country's best interest to extend its debt rather than to pay it off.

But the question is, is it necessary, one, for the United States to do that, and is it in our best interest, because we do not have that benefit? If we provide the loan amount, the money is gone. Sure, we have the interest, but I guess I do not feel from the conversation so far that we have had a reasonable explanation of the administration's request to have Korea's debt extended from the 5 to 7 years to the 10 to 20.

Mr. KELLY. May I add a little bit, Mr. Chairman?

Senator MURKOWSKI. Surely.

Mr. KELLY. First of all, what we do in Korea includes the provision of our 40,000 U.S. forces that are arrayed along the demilitarized zone.

The second thing we do is provide the security assistance which we request of the Congress. The security assistance that we are providing and requesting for Korea represents less than 5 percent of the Republic of Korea's military budget. It represents about 40 percent of their annual purchases of military equipment from the United States.

With respect to the money that has been provided to Korea in the past, my figures apparently vary from yours, and I will certainly work with your staff to resolve them, but I show that there is in fact only about $36 million in uncommitted balances, and 90 percent of that is on a loan that was signed less than 6 months ago.

Senator MURKOWSKI. Well, the figure I have, and the reference paper, I believe, is from the State Department, shows principal amount of FMS financing unexpended as of September 30, 1984, which is the latest year that my staff was able to get, showing $126 million.

Mr. KELLY. I think, sir, that represents unexpended amounts. For example, the F-16's, which are a $1 billion acquisition for Korea, were approved in 1982, and the first one will not be delivered until next year, so this represents a commitment for future payment to the United States.

But it is definitely something that the Republic of Korea owes to the United States, so I think that our difference probably has to do with items that have been ordered, and which have a lead time of 4 or 5 years, such as F-16 aircraft.

Senator MURKOWSKI. Well, I would ask that our staffs try to get together on those figures.

I would again respectfully request for the record a more detailed explanation on the justification for the extended repayment request for the Philippines, because the chairman remains unconvinced.

Mr. WOLFOWITZ. For Korea, sir?

Senator MURKOWSKI. For Korea specifically, because I am unconvinced that we are doing either the Koreans, our good friends, or ourselves a favor by extending their debt almost to never-neverland. These kinds of loans traditionally should be paid back in some conformity with the life of the equipment that we are providing.

That is just reasonable, fiscally responsible lending function. And to extend these credits out way beyond the normal useful life of the equipment that we are selling them is something that you certainly would not do in the conventional arena.

I am not suggesting by any means that this is a conventional arena, but this is still set up as a conventional loan, inasmuch as there is no concessionary rate either requested or asked for in the case of Korea.

I have a couple of other questions with regard to the overall situation. I think you made a statement that your budget increase in FMS was about 18 percent.

Mr. WOLFOWITZ. I was talking specifically about the increased request for the Philippines over last year's request, sir.

Senator MURKOWSKI. And the administration's overall budget increase is 1.5 percent, as I am told. I am talking about total budget.

Mr. WOLFOWITZ. Total budget? Sir, I do not have those figures.

Senator MURKOWSKI. Well, the guidelines that theoretically we are all under, if it is to keep within the overall budget increase, appears to have been exceeded a little bit in the FMS category if it is 18 percent.

Mr. KELLY. For the Philippines.

Mr. WOLFOWITZ. It does not go category-by-category, sir. We have cut quite a few programs and flattened out programs that were scheduled for increases.

Senator MURKOWSKI. If we are looking at percents, then obviously it represents a substantial percentage.

Mr. WOLFOWITZ. We acknowledge that we are asking more for the Philippines this year than last year, but that is because we believe the situation there is an urgent one and additional resources are needed, sir.

Senator MURKOWSKI. In the case of Indonesia, with its prosperity, what is the justification for the concessional rate?

Mr. WOLFOWITZ. Indonesia has had a very good record of economic growth. It has been developing well and using its resources well. But it remains, sir, an extremely poor country.

Senator MURKOWSKI. Did you not mention the GNP as being high?

Mr. WOLFOWITZ. $90 billion. But I also said, sir, that it is the fifth largest country in the world. Its population is enormous. The per capita GDP last year was barely $500. The decision on concessional rates takes account of a number of factors, but that low per capita income is the main one, I believe.

Senator MURKOWSKI. Are you not setting a precedent in the sense that we did not have a concessional rate last year for Indonesia, and you are recommending one for this year?

Mr. WOLFOWITZ. We have been trying generally, sir, to move away in the case of countries with acute economic need, low per capita income, or other factors, to move away from putting all of this on commercial terms.

We feel the whole point of the program is supposed to be to make it possible for them to meet their security needs without damaging development programs, and that we are moving away from a pattern a few years ago of exclusively commercial rates to more grant and more concessional rates. It is a trend I think you will see in general.

Senator MURKOWSKI. I happen to be chairman of the Veterans Committee, and while there is no precise comparison, there is a general comparison inasmuch as the administration has recommended that veterans' mortgages, the front end points, be increased from one to five.

That is dictated by budget constraints, and obviously it does not sit very well with the veterans of this country. And then we are turning around and making concessional loans at 5 percent to our good friends, and I do not dispute that. But I question the justification of the concessional rate application, and I am not going to dwell on it much more, which you will be relieved to hear.

Other than that, I do note that we have Indonesia, the Philippines, and Thailand, all three of which are in for concessional rates. I remain yet to be convinced of the necessity of concessional rates. I am of the opinion that concessional rates cannot be justifiably substantiated by the administration.

However, I do want you to know that I remain openminded enough to be willing to be convinced, but up until this time I have not been convinced of the justification of concessional rate recommendations.

Mr. WOLFOWITZ. If I might, just one point of information, Mr. Chairman. The concessional rates for FMS for Indonesia began with last year's request, so that what Congress appropriated for fiscal year 1985 is on concessional terms already.

Senator MURKOWSKI. That is correct. It was $33 million last year, and the request is $35 million for this year.

Mr. WOLFOWITZ. I might note, too, when we went from the nonconcessional in 1984 to the concessional in 1985, there was, as you notice, a significant reduction in the total.

Senator MURKOWSKI. Tell me, Mr. Secretary, are there any drugs generated in the countries under consideration that are coming into the United States that we have knowledge of and are concerned about to the extent that we have officially initiated communications to the appropriate governments expressing our concern and asking that they actively engage in the reduction of drugs originating in the affected countries entering into the United States?

Mr. WOLFOWITZ. Yes, Senator. We could go into this in more detail if you like. Let me just give you a rough summary of the countries for which we are requesting assistance. The two in which there is significant narcotics production are Burma and Thailand.

We have done a great deal more than just express concern or make statements to these governments. We have been working with them very actively to try to suppress narcotics traffic and suppress production of opium poppy.

The basic reason why this takes place, particularly in the case of Burma, is because the central government has very little control over a number of outlying mountainous areas of the country where rebel groups and smuggling groups live off the narcotics trade.

The Burmese Government and the Thai Government have acted very vigorously against narcotics traffickers, and when I say they have acted vigorously, I mean they have mounted military operations. They have had people killed and wounded, in the case of Burma in rather large numbers.

Both of these countries have poppy eradication programs. The one in Thailand started recently at our urging. In the case of Burma, we are actually providing through the international narcotics funding program some funding for crop eradication efforts.

It is a problem that is very much on our minds. Both of these countries are large producers. They also happen to be large consumers, unfortunately.

Senator MURKOWSKI. Are you satisfied with the efforts the government is making in each case of Burma and Thailand?

Mr. WOLFOWITZ. Basically, yes. There is more to be done. I do not want to leave the impression that if they just stop here everything is fine. There is a great deal more to be done, particularly in the area of poppy eradication.

We are working with them to step up those efforts. But they have been taking very strong action. As I say, it is hard to think of a more serious action than sending your own people out to be killed.

Senator MURKOWSKI. Countries that have not shown enough initiative in the attempt to curb the expansion of drug trafficking within and outside their country to the United States should have our displeasure evidenced by some method such as reducing foreign assistance.

Do you believe in that as a philosophical tool to get a little attention when we have problems occasionally?

Mr. WOLFOWITZ. As a practical matter, I do not think that would be justified in the case of Thailand or Burma. I think more broadly you have different programs serving different purposes, and I think they do have some general relationship to one another, but I think you can get into a lot of trouble if you tie them up too tightly.

It is a theoretical question, I think, in the case of these two countries that have been actively moving forward against narcotics, and I might point out we do, though not in this appropriation, actually provide them with some funds for those efforts.

Senator MURKOWSKI. In the case of the Philippines, it is accepted that we have a best efforts commitment to provide assistance in the amount of about $900 million over 5 years, and that best effort is in consideration for certain accommodations from the Philippines.

I have somewhere in the mass of information in front of me what that breaks down to per year. I think it is somewhere in the area of $180 million would equate in 5 years to about $900 million.

Yet the grand total of assistance to the Philippines, as you have indicated, is an increase and is substantially over that. It is $275 million, according to figures I have here.

So, it is far above what we have agreed to, whatever its best efforts basis would be.

Mr. WOLFOWITZ. It includes more than just the best efforts. That is correct, sir. Under the best efforts pledge, we are pledged to $180 million in combined security and economic assistance.

It is also more or less understood that we would maintain the level of development assistance that we had at the time that agreement was concluded, and that level is roughly $35 million a year.

Over and beyond that there are amounts that clearly can be identified as beyond anything in the President's letter. If you would like, by the way, sir, I could provide that for the record, that Presidential best efforts letter.

[The letter referred to follows:]

THE WHITE HOUSE,
Washington, May 31, 1983.

His Excellency FERDINAND E. MARCOS,
President of the Philippines, Manila.

DEAR MR. PRESIDENT: I was pleased to learn that our representatives have completed the review of the Military Bases Agreement which was agreed to during your state visit to the United States last year.

In light of this development, I wish to state that the Executive Branch of the United States Government will, during the five fiscal years beginning on October 1, 1984, make its best effort to obtain appropriation of security assistance for the Philippines in the following amounts:

Military assistance, $125 million; foreign military sales credits, $300 million; and economic support fund assistance, $475 million.

In this connection the United States Government will seek to provide the Foreign Military Sales Credit on the basis of a grace period of ten years and a repayment period of twenty years. As you are aware, under our constitutional system, the Congress has sole authority to appropriate funds.

I was also pleased to note that the Military Bases Agreement review confirmed that the Agreement continues to meet our mutual needs and interests. I believe that this review has again underlined the close and historic ties linking our two countries, and will contribute to further strengthening the peace and security of the western Pacific region.

Sincerely,

RONALD REAGAN.

Mr. WOLFOWITZ. The amounts most clearly identifiable are the two that I called attention to in my testimony, $35 million for a new Public Law 480 program and $15 million for additional military assistance. Those are clearly above and beyond the Presidential best efforts pledge.

Senator MURKOWSKI. I have read many of your statements and addresses, and you have indicated that—in an article attributed to the Washington Post, "Philippine Crisis Grows, Top U.S. Official Warns," it quotes you, sir, as follows:

"The future course of United States-Philippine relations depends on the credibility of the pending trial, and the pending is my enunciation, as does the relationship between the Philippine Government and its people."

I wonder if you could indicate, in view of the fact that the Philippine people are having a little trouble finding some of the witnesses, what the reaction of the administration is from the standpoint of their pleasure or displeasure, and the course of future relations, and the current status of this matter.

Mr. WOLFOWITZ. I think the problem you have identified is a real one. We have been following the whole proceedings closely. We followed the proceedings of the Agrava Commission closely, and have been following the trial closely.

In fact, the Embassy sends observers to all of the trial sessions, and has made every attempt to keep abreast of what is going on.

The question of why some witnesses have failed to appear is one that we cannot give you a full answer to, but I think it is clear, and we have said, and I will say again here, I think it is important to United States-Philippine relations, but it is even more important to the Philippines and to the Government of the Philippines that this be a credible trial.

The government needs to take measures to assure that witnesses appear and that witnesses feel they can testify in an environment where they are not intimidated.

Senator MURKOWSKI. So you have no knowledge of why the witnesses are missing or not around?

Mr. WOLFOWITZ. We have many reports. Many of them are hearsay and rumor. I do not believe, sir, that we could give you a statement that we would have confidence in the facts.

Senator MURKOWSKI. I think it is important as we reflect on the appropriateness of the increase to determine if indeed the administration is satisfied that the Philippines and the Marcos government trial process, which you seem to indicate is most important to our future relationship, is indeed being followed in a manner which we would anticipate and expect, and that it is not being lost in the bureaucratic process that occasionally occurs.

I am curious to know of the administration's attitude toward an alleged study released by a Walden Bello, spokesman for a Philippine human rights organization, who had indicated that he had obtained a report from the State Department. The State Department refused to confirm or deny the document's authenticity.

In an article appearing in the Wall Street Journal of March 12, it was said that the United States will request President Marcos to curb his decree-making powers, dismiss corrupt and abusive military officers, and set the stage for a peaceful transition to a successor government.

These conditions and others, most of which would be politically painful to Mr. Marcos, are listed in a study prepared by an administration interagency group. I am wondering if you would have any objection to us having that for the record, and if indeed that is representative of the administration's position.

Mr. WOLFOWITZ. I think you have a right to enter into the record what you want, sir, but I would in fact personally express the request that you not enter Mr. Bello's document into the record.

I am not going to say here whether that was actually a classified draft document in the executive branch or not.

Senator MURKOWSKI. If it is classified, obviously I would not consider putting it in the record. I am just reading from the Wall Street Journal.

Mr. WOLFOWITZ. One of the things that I find amusing in this whole episode, Senator, is we have been saying over and over again in public testimony and public speeches that we support democracy in the Philippines, we support military reform in the Philippines, we support economic reform, and Mr. Bello releases an allegedly secret document that lets this secret out.

I suppose, in fact, we are pleased that people have noticed we were not trying to keep those particular facts secret. But I cannot get into the business of telling you whether some allegedly leaked piece of paper really is a classified U.S. document. I think you understand that.

Senator MURKOWSKI. I like your second answer better than your first. My question is whether, regardless of who the gentleman is or how the document came about, whether it is a position of the administration necessarily or not necessarily.

Mr. WOLFOWITZ. We have laid out the position of the administration in public and in considerable detail. I mentioned in my earlier testimony that I would like to provide for the record, in fact, testimony that we have given recently and as well a public speech that

I gave last month that lay out very clearly and, I think, very strongly our concerns about some of the political, economic, and military developments in the Philippines and the strong support we give for reform in those three areas.

You can take those, and if someone wants to compare them with what Mr. Bello alleges we are doing, that is fine with me.

Senator MURKOWSKI. I am still a little confused. I gather from your comments that it probably does not necessarily represent the position of the administration.

Mr. WOLFOWITZ. Maybe I can explain it this way. Senator, we deeply deplore the leaking of classified documents, and we cannot get into the business of helping out people who get into that game by saying whether what they have is the real thing or not.

That is why I am reluctant to answer that specific question here.

Senator MURKOWSKI. I accept your explanation.

Evidently over in the House we had a little situation yesterday concerning some of the attitudes that prevail over there toward the mark-up on military aid for the Philippines. It seems like we are following a pattern similar to last year, at least on the House side.

Mr. WOLFOWITZ. I think it is very regrettable, Senator.

Senator MURKOWSKI. From the standpoint of the concern we have both enunciated that the obligation this country has is to the people of the Philippines, and the question of military purchases obviously can be very easily construed to benefit the government in power, and the government stays in power by obviously maintaining a liaison with the military of one sort or another.

Can you give us some sense of comfort on why military purchases are not seen as constructive and are questioned by the public as represented by the action in the House in knocking $75 million from the Administration's request for military aid to the Philippines and replacing it with economic assistance. From the standpoint of the public and many of the witnesses here, the merits of economic assistance versus military assistance would seem strong, particularly when we have expressed growing concern over the problems within the Marcos government. The realities are that this is military aid, and the military is under the control of the Government.

So, I just wonder, how do you explain it? Well, I know you can explain it, but how do you logically counter the argument that it is not better to put our aid in economic assistance rather than military assistance?

Mr. WOLFOWITZ. I can say several things, Senator. If I might just say briefly, we had 3½ hours of hearings with the House where we discussed this subject in great detail.

At the end of the hearings, Chairman Solarz seemed to indicate that we had had a very useful exchange, and that the views were understood.

I find it frankly a little mystifying that it was not reflected at all in the action in the mark-up, and I think that is regrettable.

There are two basic facts here, one, that there is a very real Communist insurgency. It is a real threat to any democratic government in the Philippines. And in fact, if a new government were to take over tomorrow, led by any of the democratic opposition that you can name, they would need a military that is effective in dealing with an insurgency.

The military in the Philippines has deteriorated badly, particularly in recent years, and it is going to take time to rebuild it. It is an important institution. That is one argument.

The second point, sir, is that we acknowledge—we have been extremely frank about the fact that the military in the Philippines has a lot of problems, and the problems include lack of discipline and a tendency to make enemies of the people rather than to be their protectors and their friends.

We have had very frank discussions with the Philippine military about that problem, and there has been some movement toward military reform in recent months. We have said that this request is premised on the expectation that those reforms will continue.

If they did not continue, we would be back up here with the Congress to consult about what to do, because we are not prepared to simply go forward with this in the absence of a continuation of the military reform.

So, I think in both respects, in the sense that an effective military is needed for any democratic government in the Philippines, and second, because these specific requests are tailored to try to reduce abuses, to strengthen the military in a way that all Filipinos would support, I believe this request is justified.

As I said also, on the question of economic versus military assistance, there are many other suppliers of economic assistance, but we are the only ones who provide military; and as I said. if you just look at direct bilateral and multilateral grant programs, what we are asking you for is 7.6 percent of the total assistance the Philippines gets from all sources, including the World Bank and Asian Development Bank.

In other words, 92.4 percent is economic assistance from the United States, from Japan, and from the multilateral donors.

Senator MURKOWSKI. Last year, the total was given as a consequence of a compromise and reflected in increased economic assistance. Is that not true?

Mr. WOLFOWITZ. That is true, and it was also repeatedly said during the course of that process that we were front loading economic assistance that we would make up for with the military side of it in later years, and in fact one has to begin that process of making up pretty soon or we will be facing a situation in a couple of years where it is all military and not economic.

Senator MURKOWSKI. That is what you have attempted to do, in effect, this time in your increase in that category, is make up a bit for last year, perhaps.

Mr. WOLFOWITZ. Partly to make up for last year, but also to address the situation that has become far more urgent during the year since we made our last request, and to address something that is quite hopeful, which is the fact that in the last few months the military in the Philippines has begun to take serious action to get its act together. We would like to support that.

Senator MURKOWSKI. The increase last year that was made in economic assistance, have you had an opportunity to track that to see how meaningful it was, because in effect we gave economic assistance as opposed to military purchases.

Mr. Wolfowitz. Mr. Greenleaf can speak to that, sir.

Mr. Greenleaf. Senator, we requested last year $95 million for economic assistance.

Senator Murkowski. And you got what?

Mr. Greenleaf. We got $140 million. We got $45 million extra that was taken out of the military.

Senator Murkowski. And this year what are you requesting?

Mr. Greenleaf. We are requesting the same amount, $95 million on the economic side.

Senator Murkowski. But last year you got $140 million.

Mr. Greenleaf. That is right.

Senator Murkowski. What did they do with that?

Mr. Greenleaf. We are still discussing with the Philippine Government the way that that extra $45 million will be spent. I think this is an important point to add to the discussion.

There is no question there is a need for both military and economic assistance. Speaking for AID, we felt that the $95 million in economic assistance was a good balance with the rest of the funds going for military. When we got the extra $45 million, as we did this past year for the current fiscal year, it was recognized that it takes time to program the money. Móreover, we wanted to make sure that the money was programmed in a proper way, and in a way that would inevitably be of most use to the people in the rural areas, in the way that previous aid had been.

Quite honestly, we have had a difficult time from the beginning of the Economic Support Fund Program. Back in the early 1980's, we had difficulty getting the funds out and getting the funds expended and obligated.

Senator Murkowski. How much are unexpended from last year?

Mr. Greenleaf. From 1984, well, let me go back even farther than that. We had in the first 5-year program, which was a total of $200 million economic assistance, we have only expended $117 million out of that $200 million. In other words $83 million of that has not been expended, partly because the kinds of projects are complicated, and it takes time.

Senator Murkowski. So there is $83 million carryover?

Mr. Greenleaf. It has been obligated but not actually spent in the field.

Senator Murkowski. Since when? How far back?

Mr. Greenleaf. 1980 to 1984. That was the 1980 to 1984 package, the first 5 years.

Senator Murkowski. And how much of fiscal 1985 do you have left?

Mr. Greenleaf. Fiscal 1985, of course, is the current fiscal year. We have $140 million, and of that $45 million is not obligated, although we certainly anticipate that that will be obligated.

Senator Murkowski. So you have $128 million remaining unexpended, but theoretically appropriated. Is that it?

Mr. Greenleaf. That is right, the projects are obligated with the exception of the additional $45 million from last year.

Senator Murkowski. Why do you really need $95 million this year?

Mr. Greenleaf. We need the programs, as I said at the beginning of my statement. There is definitely an economic need. The problem is, we want to make sure that we do not just write a check to the Government, that we identify exactly what we want to spend that money for, whether it is for roads or schools or rural credit assistance or whatever.

Senator MURKOWSKI. This is free money. This is a grant.

Mr. GREENLEAF. It is a grant.

Senator MURKOWSKI. And you are telling me they are not accepting the full amount of the grants.

Mr. WOLFOWITZ. Senator, they accept the money. If we would give them a check, they would be glad to spend it tomorrow, but we do not do it that way. We insist on a lot of very careful planning, a lot of very careful monitoring in the whole procedure.

The short answer, I think, is, given the way in which we insist on it being spent very carefully, it actually takes time to spend this money. The planning does not begin until the Congress has appropriated the money. The planning takes time. The actual execution takes time. As Mr. Greenleaf said, some of this money is already obligated for projects underway.

Senator MURKOWSKI. But this is for economic assistance for a country that has an economic plight. I have no idea—that is your business—how you manage the transfer of that to get into the economy, but from the standpoint of my oversight it would appear that you are carrying over $128 million from a period of 1980 to 1984, you are asking for another $95 million, for a total of $223 million. Either we have not been able to be responsive in getting these grant moneys to meet our criteria, or the Philippines have been unresponsive to move the paperwork to meet whatever our requirements are.

I assume that there is some reasonable conclusion there, but in all due respect, gentlemen, I have to question the request of the $95 million in 1986 fiscal year because it does not appear that it approaches the area of priority.

Mr. GREENLEAF. Senator, let me merely say whether it is in the Philippines or any other country, we do not simply write a check and give them carte blanche, which we are not about to do in the Philippines——

Senator MURKOWSKI. I am not suggesting that at all.

Mr. GREENLEAF. No, sir, but my point simply is, when we do not merely write a check, as is the case here, and it is true in other countries as well, it takes time to program the money, particularly when the money is in the form of projects that involve careful planning, that involve local contributions on the part of the Philippine Government.

Senator MURKOWSKI. I understand that, but by the same token we are all aware of the crucial nature of the situation in general in the Philippines, political, economic, social, and so forth. I think you would agree that if we are going to turn it around in the area of economic assistance, it has to be timely.

I am not here to debate the methodology. I am strictly here to look at the figures and reflect on the request and what you are carrying over. It looks obvious to one who recognizes that you have more carried over by a substantial amount than you are requesting in this year's fiscal budget.

Mr. Wolfowitz. Senator, your concern is one that the Philippine Government presents to us on a regular basis as well. The fact is, one of the main reasons we have these careful patterns for spending the money is because of restrictions that the Congress itself has laid down, including very specific restrictions from the Appropriations Committees.

Senator Murkowski. I understand that, but why do you not, for the record, try to go back and identify how much of the 1980-84 funds that are unexpended but appear to be about to be appropriated for programs that you feel are in the best interests of the Philippines and we will see really where we are.

If we are talking about gray areas and the process is in the mill, that is something else again, but I think you would agree if we are going to establish a workable economic assistance program it should be done in a timely manner.

In my opening statement, I recognized and commended the administration for moving into Thailand with extra assistance because it was needed.

I think that the discussion we had last year over the merits of further economic assistance to the Philippines stressed the reality that if we are going to stop the outflow of capital from the Philippines, we had to restructure the confidence and try to assist in the economic area.

Let me ask you another question, Mr. Secretary. You have indicated in articles and addresses and so forth the possibility of conditioning further assistance, and this has been implied rather than, I think, directly stated, that we expect certain reforms to occur.

We expect the trial to proceed, we expect better performance, and so forth. What are you prepared to do if we do not get what we expect?

Mr. Wolfowitz. Sir, that depends on different areas. In the case of the specific $35 million we are asking for this year, our notion is that it would be related to reform of the Food Distribution Program in the Philippines.

Senator Murkowski. I am sorry, I did not hear you.

Mr. Wolfowitz. That it would be related to reforms in the food distribution sector in the Philippines, and if those reforms do not take place, the money presumably would be unexpended. More generally we and other donors, including the banks, and the World Bank has been very crucial in this, have been making specific performance requirements related to specific loans or to additional tranches of the IMF agreement, for example.

I believe in order to get the third tranche of the IMF agreement, the Philippines has to have implemented a program of reform of the sugar and coconut sectors.

Senator Murkowski. Let us get into a tougher area. Let us get into the political area. What do you do if you are not satisfied? Let us assume that this trial goes on and we do not get the witnesses, and the Government is unwilling to condemn whatever alleged military involvement there may have been.

Do we take into account this Foreign Assistance Program and use that as leverage, or do we not?

Mr. Wolfowitz. Generally speaking, when I think we are talking about political reforms in someone else's country, it is not a good idea to start linking that to specific economic programs of ours. I think people get extremely nationalistic and extremely resistant when that kind of explicit linkage is made.

That does not mean that political reform is not important. It may indeed be the most important of all the reforms we are talking about, and it is one of the areas where I think some significant developments have taken place in the last year, including, very importantly, as I said, the elections that were held last May.

We have had some influence, I think, not by linking to some specific $10 million here or $50 million there, but because our voice is one that is respected and is listened to in the Philippine Government; and our voice is most effective, in our experience, when it is part of a debate that is already formed in the Philippines, when people outside the government and inside the government are arguing, for example, as they did last March and April, that it is important to have a free and open election in the Philippines, it is important to have an effective electoral code.

We were able to register that it was something important to United States-Philippine relations as well. And I do not think the point was missed that it was something important to the general confidence of investors and banks and other people in the economic area within the Philippines who had to maintain confidence.

Senator Murkowski. Would you excuse me for just a moment? [Pause.]

Senator Murkowski. I agree with your attitude toward diplomacy. I think at some point in time we have to be prepared to take some action, and of course that is appropriately deemed at the time, that we cannot achieve our purpose by any other means.

But my point specifically is, if we are going to just insinuate that we intend to take some action if certain things are not done and time goes on. I think as a matter of principle that we should be prepared occasionally when necessary to react.

It is sometimes a little difficult to do. I do not think, speaking for a number of my colleagues, that we are generally satisfied that the Marcos government has made as timely a corrective action as we would have liked to have seen there. Yet we are considering here today additional aid, additional support, and had we had specific conditions. Why they have not been more responsive, I do not know.

Mr. Wolfowitz. Senator, I do not think we are arguing specific conditionality in the right way or in the right places. In fact, in the recent meeting of the donors group for the Philippines the donors joined in a statement that they were not prepared to proceed with new commitments until it was clear what the Philippines' plan was in the economic area and what progress was going to be made.

I think, for example, if you were going to have a program like the Public Law 480 Program that we are proposing, if you are going to have it conditioned, as we are, on a reform of the Food Distribution Program, you cannot then say, OK, if our reform of the Food Distribution Program takes place, we are still not going to provide it, because we are going to link it to something else. That is called selling the same horse twice, three times, or four times.

I think we have to recognize that there is a limit to that kind of thing, and we have to recognize that in fact at least one legitimate view of the $180 million basic part of our request is that it is related to the bases. It was part of the base review, and it has that relationship.

Senator MURKOWSKI. Mr. Secretary, I have a list here of security assistance requests for fiscal 1985 for the Philippines. It consists of air force maintenance, aircraft ground forces. I would like further detail on this from the standpoint of specifically what kind of aircraft are over there that they have and the specifics of what this equipment is going to go for.

Mr. WOLFOWITZ. We are not talking, Senator, about sophisticated aircraft. The Philippines has come completely from the proposition of buying fancy hardware.

Mr. KELLY. These are primarily spare parts for helicopters, both UH-1H and Sikorsky S76 helicopters, for T-28 aircraft, and for F-5 aircraft, Mr. Chairman.

Senator MURKOWSKI. One of the questions that we are continually asked, of course, is, is this military hardware, helicopters, whatever, utilized in an oppressive manner by the military on the residents of the Philippines who are striking out for human rights? The answer to that, I assume, from the administration is what?

Mr. KELLY. The answer, Mr. Chairman, is that most of this equipment in the request under consideration, are spare parts, to support existing equipment. Very little of this is new equipment.

Senator MURKOWSKI. I know, but if you provide parts for a helicopter and that helicopter moves off on a military mission, it can be very effective.

Mr. KELLY. We have made the point that the armed forces of the Philippines have had serious problems of leadership and of execution of their task. They have had a worsened insurgency. We are not ready to say that every use of every one of these equipments is going to be perfectly appropriate, but we do believe that the thrust of the use of this equipment is much more positive than what the experience had been over the last several years. We say that based on a number of very direct discussions we have had, as well as some specific actions that have been taken within the armed forces of the Philippines.

Senator MURKOWSKI. Let me ask you this. The comment was made by you, Mr. Secretary, with regard to the Communist threat in the Philippines, is it not inconceivable that there might be a group of Filipinos that are strongly in opposition to the Marcos government and are not part of the Communist guerrillas that would like to see the Marcos government replaced by what might be considered a more responsible government?

I am concerned with the general brushstroke that says that everybody out there fighting against the government is a hard-nosed Communist.

Mr. WOLFOWITZ. I would like to distinguish two things in my answer, Mr. Chairman. First of all, there are many people who are in opposition to the government, democratic opposition, who are not Communist, and we understand that very clearly. Occasionally people have cast doubt on the President's attitude.

I might insert for the record a quotation from an interview President Reagan gave recently to the New York Times in which he made it very clear that we recognize that outside of the government there are very important democratic elements in the Philippines.

Our hope is, in fact, through the kinds of reforms that we are promoting, to see a strengthening of democratic institutions and the maintenance over the long run of a democratic Philippines.

When you talk about those who have taken up arms against the government, however, you are not talking about these democratic opposition people. You are talking mainly about something called the New People's Army, which is the military arm of the Communist party of the Philippines.

There is a great deal of evidence about the very Communist and basically totalitarian nature of that party and that movement. In fact, there is an excellent report prepared by Mr. Brown and Mr. Ford of this committee's staff last year which goes into that in some detail.

In fact, it has been widely read in the Philippines as well as here. That does not mean necessarily that every person recruited in the New People's Army is a committed Communist or even understands what communism is. Some of them may come in because they dislike the government or they had a run-in with the military, but the leadership of that movement certainly is very committed.

Senator **Murkowski**. What do the others that are in opposition to the Marcos government do to express their displeasure?

Mr. **Wolfowitz**. A variety of things, sir. I might emphasize that we meet with many of these people very often. Our Embassy in Manila is in constant contact with elements of the opposition as well as the government. We see opposition leaders frequently that come through Washington.

I think the most important activity that they have mounted was a very vigorous election campaign back in May of last year in which they gained a very large number of seats in the parliament. They have been very active in the parliament since then, questioning actions of the government and questioning corruption by government ministers.

The press in the Philippines has revived enormously in the last several months. It is one of the most free presses of all in Asia, I believe, with the kinds of criticisms that you can find in the Manila press. That does not necessarily mean all papers. Many are under the control of the particular editor or the particular publisher, but all kinds of criticisms are in fact permitted.

Senator **Murkowski**. Are these opposition groups in disfavor with the Marcos government in any manner or form?

Mr. **Wolfowitz**. They are extremely critical of the government, and the government of them.

Senator **Murkowski**. To what extent does the government try to curb their activities?

Mr. **Wolfowitz**. I think, as I have tried to indicate with my earlier answer, I think their activities are far freer than they have been in the past. There have been some specific cases of actions, some of which we in fact have registered our concerns about to the government, but generally speaking, I think opposition is very much more active than it was just a year ago.

The supreme court is much more willing, for example, I think, to step in and enforce laws about the freedom of the press. The supreme court recently lifted a ban the government had imposed 2 years ago on a newspaper called We Forum. It is not a perfect situation. I do not by any means wish to imply that. But it is a progressing situation, at least in the political area.

Senator MURKOWSKI. Can you say without qualification that our FMS funding in the past has not in some way been used by the military against non-Communist groups that are in opposition to the Marcos government?

I am talking about trucks or helicopters, what have you, that have been used to try to disperse interests or organizational efforts of non-Communist groups that are in opposition to Marcos.

Mr. WOLFOWITZ. Our military aid mission to the Philippines monitors very closely to make sure there is no use of military equipment for police purposes. That is something prohibited under our law, and the military assistance group there is very aware of it as an issue. They follow it closely.

Senator MURKOWSKI. You are satisfied that it has not occurred?

Mr. WOLFOWITZ. They are satisfied that it has not occurred. I have to depend on their judgment. The ambassador depends on their judgment and believes that they are correct.

Senator MURKOWSKI. And you do not think that there would necessarily be any association with these non-Communist groups to try to align from the standpoint of their ultimate objective to replace the Marcos government with some other kind of government. The two are quite distinct and separate. Is that right?

Mr. WOLFOWITZ. Excuse me. I do not think I quite understood the question.

Senator MURKOWSKI. I am referring to any effort by the non-Communists in opposition to the Marcos government trying to align with the Communist forces to bring about certain concessions, changes, remedies, what have you.

Mr. WOLFOWITZ. There are always exceptions, but I would say generally speaking democratic opposition in the Philippines is pretty impressively democratic. Of course, as is always the case in situations like this, the Communists do attempt to create front groups to capture innocent and well-meaning democrats into temporary alliance with them.

Generally speaking, in fact, the democratic groups in the Philippines are pretty sophisticated. A number of these fronts have collapsed because the democrats have pulled out as soon as the Communists move in.

Senator MURKOWSKI. Where do the Communists get their arms? Evidently they are quite well armed. They have a pretty effective record in surprise attacks. Of course, if you are going to surprise attack, you are going to be fairly effective, assuming you have adequate weaponry. Where are they getting their arms if there is no significant influence from outside the Philippines?

Mr. WOLFOWITZ. They steal them. They capture them from government forces. And they buy them on the black market.

Senator MURKOWSKI. Is there a laxity in the Philippines, more so than other countries, that they cannot control their arms and munitions, or is there desertion from the Philippine military to the Communists?

Mr. WOLFOWITZ. I think one could say generally that the Philippines is a country in which firearms have been pretty readily available historically in all kinds of circumstances. What we are talking about, of course, is something that goes beyond that. There has been, I think, significant deterioration in military discipline that has led to units losing weapons, having them captured.

Senator MURKOWSKI. Well, to pick up enough just by accident——

Mr. WOLFOWITZ. I would not exaggerate the amounts we are talking about. We view this as a serious insurgency, but we are talking about something like 10,000 small arms. It is not extraordinary.

Senator MURKOWSKI. Ten thousand small arms in the hands of how many people?

Mr. WOLFOWITZ. Roughly that number.

Mr. KELLY. Or 12,000 or 13,000. That appears to be a problem for them, and a focus of the military activities that the New People's Army has pursued, which is to get arms. In a country the size of the Philippines, with the military forces and the constabulary spread out in small units in remote places, a very substantial number of the attacks over the last couple of years have been for the purpose of raiding police stations and capturing all the arms there, and raiding small army posts and encampments for the same reasons.

Senator MURKOWSKI. Well, it is hard to understand, I guess, how they could be so effective in stealing that many arms to make the presence that they have, which is certainly substantial. Tell me, from a political point of view, what is your analysis of the attitudes or sympathies of the people of the Philippines toward the Communist insurgents?

I recognize that this is a matter of degree, but I assume there is a general frustration in some elements of the population of the Philippines toward the Marcos government.

Do people see the efforts of the Communist insurgents as a possible alternative in the sense of an eventual change of government? Are they totally in opposition? What is the trend of the sympathies of the people of the country?

Mr. WOLFOWITZ. There are some people who are so disaffected with the government that they will turn to any alternative, and the Communists do their best to pretend that they are nothing more than a social service organization in many circumstances, and I do not exaggerate in that regard. I think the overwhelming number of the Filipinos are not attracted to that alternative, but are attracted to a democratic alternative.

The best evidence that I can give you of that, sir, is that in elections last May in which the Communists advocated a boycott of elections, in which there was an overwhelming turnout, a very heavy vote in support of the democratic opposition to Marcos, clearly a lot of people who are supporting the democratic alternative did not heed the Communist call to boycott the elections.

Senator MURKOWSKI. Senator Cranston has joined us. Senator, we have covered a substantial area of questions.

Senator CRANSTON. I gather that you have.

Senator MURKOWSKI. Maybe you have been briefed by your staff, but I would ask that you proceed with any questions that you may have.

I would like to enter into the record at this time a series of questions submitted by Senator Dodd, and I apologize to him. I was not aware that he was under time constraints until he left.

Senator Cranston.

Senator CRANSTON. Thank you very much, Mr. Chairman. I will not take up much time of the committee. I just want to get into one matter briefly.

First, let me say, Secretary Wolfowitz and Mr. Kelly, I appreciate the opportunity to talk with you about the Philippines. I am pleased by the way you have been approaching the problem, and I know you have been doing your very best with a difficult situation.

I am convinced that your efforts are very constructive. There are obviously some differences of opinion in the Congress presently over the exact approach to take.

In view of the evidence of congressional concerns about granting the full funding request for the Philippines, evidenced most recently by the action in the House Committee yesterday, what would you feel Congress could most appropriately do other than cutting off military assistance to register our concern about the Marcos regime and to make clear that we want economic progress and progress on human rights and democracy in the Philippines?

Mr. WOLFOWITZ. That is a fair question, although I am probably not the best person to try to answer it, but let me at least give you some thoughts that come to me. I think there are a lot of ways to register concern.

I think the Congress has over the period since Senator Aquino was killed registered in various ways concern, I think some of it quite effective. It ranges from such things as the staff report done by two members of this committee staff, which I cite because it has indeed been influential. It has been widely read, not just in the executive or legislative branches of this Government, but it has been widely read in the Philippines.

Various resolutions of the Congress have had an impact. Hearings like this one have an impact. Specifically on the recent action by the House subcommittee; they have talked about resolution language, and I do not want to indicate by any means that I agree with all of it; there are certain specific parts that I take some exception to.

But I think certainly that kind of generally clear, strong statement of what the Congress and, I would emphasize, what the executive branch with the Congress stands for, what we want to support, and what kind of progress we want to see, I think, is very effective; but I would add to that that I do think that one has to support progress where progress has taken place and we have seen some improvement on the military side. I do not by any means want to exaggerate it, but there has been some improvement.

There is an urgent military need out there, and I think it is important for the Congress to put a certain amount of money behind the idea that if that reform continues—and we have said that the program is premised on the expectation it will continue—if the reform continues, there are additional resources here to meet that urgent need.

You can say what happens if the reform does not continue. That is an absolutely valid question. We have said that we would view that kind of development as a most serious one, and we would want to consult closely with both the Senate and the House on what steps to take to either get the reform back on track or else make appropriate adjustments to our program, but I think we have seen enough beginning there; and we are talking about, after all, a process up here of appropriations that takes a very long time before we finally get to the end of it.

I think it is important to those in the Philippine military, and there are a lot of them who are professional who want to see reform, to give them a certain amount of encouragement that those kinds of efforts have some rewards.

Senator CRANSTON. Thank you very much. Mr. Kelly, Mr. Greenleaf, do either of you have anything to add to that?

Mr. GREENLEAF. No, sir.

Mr. KELLY. I could not say it any better than Mr. Wolfowitz.

Senator CRANSTON. You did say it very well, and I appreciate it very much. Thank you.

Mr. WOLFOWITZ. Thank you, Senator. I appreciate your comments.

Senator CRANSTON. Thank you, Mr. Chairman.

Senator MURKOWSKI. Thank you Senator Cranston.

In view of the question that has been raised by Senator Cranston, which I touched on earlier where last year the House came out with an action parallel to what they have come out with this year, and given the realities of the conference process, does that put you in a position where you rely upon the position of the Senate Foreign Relations Committee to overcome the attitude already expressed by the House committee?

Mr. WOLFOWITZ. Senator, we are after allies everywhere. We will be looking for help from you. We will be looking for help from the Appropriations Committees on both sides. We will be looking for help from the full House Foreign Affairs Committee.

And I might mention that Chairman Solarz on the House side did say during the mark-up yesterday, I am told, that this was the beginning of a process, and indicated at least an attitude toward acceding to a more forthcoming level later, which is something that we welcome.

Senator MURKOWSKI. The way I look upon this, Mr. Secretary, is that the process began last year when he saw fit to cut the FMS and put it in economic assistance, and he is continuing that process this year.

I would defer to my senior colleague as to how we have fared in conference when we have gone into a situation where the House has established what they want in moving these funds from military assistance to economic assistance.

How have we come out?

Senator CRANSTON. I think it is a pretty mixed bag.

Mr. WOLFOWITZ. Well, we will be working hard, Senator, and we would appreciate help from you.

Senator MURKOWSKI. Maybe if there could be some area of savings found, there might be some way to come up with a little innovative thinking on this side to offset that. I would leave it to you and your colleagues to evaluate some of the discussion that has taken place here and the points that have been elaborated on. I will also rely on my staff. I will certainly remain open to any alternative that might give you more relief from that offered by the House in their initial cut.

I want to thank you for appearing. I do not want it construed that we have been irresponsible in not spending more time on some of the areas. I think there is an exception in the situation in Thailand and the unique situation taken by the House in adding $5 million to special assistance. I have that somewhere here where they have seen fit to add $5 million in ESF for Thailand. I gather that is something you did not ask for and that there is a question as to the advisability of it.

I suppose it is appropriate that we should at least touch on it because it may be raised here by a member who might wish to propose a similar security assistance for Thailand to help the freedom fighters in Cambodia. Do you have a position on that?

Mr. WOLFOWITZ. I cannot give you a formal reaction, sir, because we have not yet had time to consult with other agencies in OMB, but let me say what I said in testimony on the House side.

We strongly support the non-Communist resistance in Cambodia, and we strongly support ASEAN in its strategy for political settlement, but without going into classified information here I would just note that we believe adequate weapons are available for the resistance from countries of the region.

Senator MURKOWSKI. What would they do if we threw $5 million at them?

Mr. WOLFOWITZ. Well, I am not sure, and I am not sure the House quite knows. We tried to make sure, working with the ASEAN countries and others of the region——

Senator MURKOWSKI. It is more appropriate that you say that than me.

Mr. WOLFOWITZ [continuing]. That these people do have adequate resources?

Senator MURKOWSKI. The House does not know.

Mr. WOLFOWITZ. I do think it is important that an appropriate signal of our support for the non-Communists be evident, and to supplement the considerable political, diplomatic, and humanitarian assistance that we now provide, and that is quite substantial, we are looking at the possibility of a nonmilitary assistance program that would help to train Khmer in civilian skills that would be needed in the short term and to govern Cambodia if a settlement is reached.

That is an area where a lot has been lost because of the deprivations of the Khmer Rouge regime, and we are looking at a program that might help to make that up. It is still at a very preliminary stage, and if we decide to proceed with such a program, we would, of course, consult with this subcommittee when we have a fuller proposal, sir.

Senator **Murkowski**. I think it would be appropriate for you to reflect on what your position is on the net request by the House which has been thrown in. Obviously, it is going to come before us either on the committee or through the conference.

I request that you make a decision whether you are going to have a position. If you do, the record will be kept open for a week.

Mr. **Wolfowitz**. We will get you a coordinated executive branch position for the record.

[The material referred to follows.]

U.S. Department of State,
Washington, DC.

Hon. Richard G. Lugar,
Chairman, Committee on Foreign Relations, U.S. Senate.

Dear Mr. Chairman: During a March 21 hearing before the Subcommittee on East Asian and Pacific Affairs concerning the foreign assistance authorization bill, Assistant Secretary Wolfowitz was questioned about Representative Solarz' initiative to provide aid to the non-communist Cambodian resistance. He undertook to provide a coordinated Administration position on this proposal.

The Administration welcomes the Solarz provison as an important signal to Hanoi regarding Congressional and public attitudes toward Vietnam's illegal occupation of Cambodia and the threat it poses to its other neighbors. As enabling legislation which would allow the U.S. to provide either economic or military assistance to the non-communist Cambodian resistance, it could be a helpful addition to the other ways we are supporting that resistance.

The Administration therefore can support the basic objectives of the provision, including the specification of up to $5 million to be used for economic or military assistance for the non-communist Cambodian resistance. We believe, however, that the provision should be amended to specify that funds for economic assistance come from the ESF account and those for military assistance from the MAP account. We would also prefer that the provision not mandate that the money be channelled through Thailand; the United States Government should retain administrative control of the funds. We would, of course, provide assistance in close cooperation with the Thai government.

The United States strongly supports the ASEAN policy of building up the non-communist Cambodian resistance as part of a strategy for reaching a political settlement to the Cambodia question which would result in a government dominated by neither the Vietnamese nor the Khmer Rouge. It is our understanding that the non-communist resistance is being provided with all the military equipment it can effectively absorb at this time. We do not believe, therefore, that it is necessary or appropriate for the United States to give weapons to the resistance now. It is our current preference to provide economic aid should this provision become law. However, we consult closely with ASEAN and with the resistance leaders concerning the needs of the non-communists, and we would not rule out the possibility of providing military aid at some time in the future.

The Office of Management and Budget advises that from the standpoint of the Administration's program, there is no objection to the submission of this report.

With best wishes,

Sincerely,

William L. Ball, III,
Assistant Secretary,
Legislative and Intergovernmental Affairs.

Senator **Murkowski**. Particularly because you say they are getting assistance, without going into classified material. One has to ask, OK, what do they do with the $5 million, and you have not answered that, and I do not necessarily expect you do, but we would appreciate your reflection on that item.

Do you have any other points to make?

Mr. **Wolfowitz**. No, sir.

Mr. **Kelly**. No.

Mr. **Greenleaf**. No, sir.

Senator MURKOWSKI. I want to thank you for being the first group with which I have had a chance to get into some of the areas that I feel very strongly about. I am not referring to the merits of aid to the Philippines or Korea but to the process and the policies under which we have established our Foreign Assistance Program.

You know my attitude pretty much on concessionary rates and extended payback, particularly when I feel that we are honestly, in many cases, doing these countries a disservice by extending these loans to unrealistic terms far beyond the life of the equipment that we are making available to them through the FMS credit concept.

I intend to spend a good deal of time in that area with my colleagues, and if necessary on the floor to bring reform to this particular policy.

It is my hope and wish that it will make your job a little easier, because you will have some guidelines from the Congress.

It is difficult to make arbitrary judgment, but my compliments go to you for your forthright answers. I have extended to you some rather difficult questions and you have answered them in a concise and knowledgeable manner.

I think we have put together a pretty good record regarding your concern for some of the expended funds. I will be open-minded on that subject and to whatever definitive identification you have as to how those funds are being appropriated.

I intend to follow with great interest the attitude of the administration toward the principle of leverage which has been implied in many statements attributed to you in the various speeches and public statements made that I think are in conformance with good diplomacy.

Indeed, if at some point in time there is not a reasonable response to the circumstances and conditions, then it will be necessary that we take appropriate action. I recognize the difficulty of that. I happen to be one who feels that we do not necessarily gain respect by throwing money at a problem. I know you and others share that view.

I would appreciate if in addition, if you would care to do so, for you to come up with any recommendations you may have on the policy matters affecting the concessional rates, the repayments. I am talking about the wide disparities within the program, the existence of the $17 billion loan guarantee fund, which is an extension of what we are talking about, which obviously represents debt that has to be paid.

Unless you consider the entire debt structure of a country, it is very difficult to consider it in segments, and what we are doing is considering one segment, but we are not considering at all this additional extended debt that is in existence to these countries.

I have a list of it now, and I think we can reflect on it.

Again, I want to thank you for making what I think is a pretty complete record on this matter, and I wish you a good afternoon.

The record will remain open for another 10 days.

[Additional questions and answers follow:]

STATE DEPARTMENT'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED BY SENATOR HELMS

Question 1. Please supply the amount of funds which Japan has spent on Defense and the Self-Defense Forces (in actual and constant dollars) for the past 15 years.

Answer:

[In billions]

JFY[1]	Yen expenditure	Dollar expenditure[2]	Dollar expenditure[3]
1970	569.5	1.582	5.253
1971	670.9	1.921	5.908
1972	800.2	2.639	6.740
1973	935.5	3.443	7.061
1974	1,093.0	3.742	6.905
1975	1,327.3	4.472	7.714
1976	1,512.4	5.100	8.292
1977	1,690.6	5.994	8.771
1978	1,901.0	9.033	9.426
1979	2,094.5	9.558	10.122
1980	2,230.0	9.835	10.470
1981	2,400.0	10.882	10.938
1982	2,586.1	10.383	11.400
1983	2,754.2	11.569	12.034
1984	2,934.6	12.751	12.184
1985	3,137.1	12.424	([4])

[1] Japan fiscal year [JFY] is April 1–March 31.

[2] Actual dollars—converted at average exchange rate for each calendar year. (Source: IMF International Financial Statistics).

[3] Constant dollars—in 1983 dollars corrected for inflation.

[4] Not applicable.

Question 2. For each of the years above, please supply the percentage of GNP represented by the defense spending, as well as the percentage of increase over the previous year.

Answer:

JFY[1]	Budget[2]	Percent of GNP	Percent of increase over previous year
1970	569.0	0.79	17.7
1971	670.9	.80	17.8
1972	800.2	.88	19.3
1973	935.5	.85	16.9
1974	1,093.0	.83	16.8
1975	1,327.3	.84	21.4
1976	1,512.4	.90	13.9
1977	1,690.6	.88	11.8
1978	1,901.0	.90	12.4
1979	2,094.5	.90	10.2
1980	2,230.0	.90	6.5
1981	2,400.0	.90	7.6
1982	2,586.1	.93	7.8
1983	2,754.2	.98	6.5
1984	2,934.6	.99	6.6
1985	3,137.1	.997	6.9

[1] Japan fiscal year [JFY] is April 1–March 31.

[2] Billions of yen.

Question 3. What is the percentage of GNP for our NATO allies, France and Israel for each of the 15 years?

Answer. The table below provides data on defense spending as a percentage of gross domestic product (GDP) for non-U.S. NATO nations and Israel. GDP is gross national (GNP) less net payments abroad. NATO prefers using GDP as a basis for comparison, and most member nations routinely provide these data to the Alliance.

DEFENSE SPENDING AS A PERCENTAGE OF GDP

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	[1] 1984
Belgium	2.92	2.90	2.88	2.84	2.76	3.12	3.17	3.23	3.35	3.35	3.39	3.54	3.43	3.34	3.4
Canada	2.38	2.23	2.11	1.93	1.92	1.88	1.85	1.93	1.97	1.79	1.81	1.80	2.08	2.02	2.1
Denmark	2.32	2.43	2.24	2.04	2.29	2.46	2.27	2.28	2.34	2.32	2.44	2.51	2.48	2.42	2.1
France	4.18	4.00	3.87	3.80	3.75	3.85	3.81	3.91	3.98	3.95	4.03	4.17	4.15	4.17	4.1
Federal Republic of Germany	3.33	3.37	3.48	3.48	3.62	3.66	3.48	3.36	3.35	3.26	3.28	3.38	3.39	3.39	3.3
Greece	4.75	4.69	4.56	4.13	5.58	6.83	6.91	7.03	6.70	6.28	5.67	7.02	6.96	6.37	6.8
Italy	2.48	2.70	2.88	2.67	2.58	2.48	2.30	2.38	2.38	2.39	2.42	2.46	2.61	2.69	2.8
Luxembourg	0.78	0.80	0.84	0.79	0.77	0.96	0.99	1.01	1.03	1.02	1.15	1.20	1.22	1.23	1.3
Netherlands	3.46	3.44	3.33	3.03	3.07	3.23	3.03	3.31	3.08	3.20	3.11	3.20	3.24	3.22	3.3
Norway	3.48	3.39	3.29	3.13	3.04	3.21	3.12	3.10	3.22	3.08	2.89	2.89	3.02	3.09	3.0
Portugal	7.07	7.40	6.94	5.95	7.40	5.28	4.02	3.53	3.47	3.46	3.52	3.53	3.44	3.35	3.3
Spain [2]														2.8	
Turkey	4.29	4.54	4.29	4.13	3.86	5.82	6.13	5.77	5.20	4.33	4.29	4.88	5.20	5.00	5.0
United Kingdom	4.81	4.93	5.16	4.82	5.02	4.87	4.85	4.68	4.55	4.61	5.01	4.79	5.01	5.31	5.4
Israel [3]	25.1	22.7	17.6	34.1	28.6	31.9	32.7	30.0	24.3	30.8	29.3	20.3	25.5	25.8	

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[1] Data for 1984 are estimates.

[2] Spain joined NATO in 1982 but has not provided the requisite information to NATO. Corresponding data on Spain are available for 1983 only. The percentage is an estimate.

[3] The Data on Israel may be based on a slightly different definition of defense spending than that used by NATO and is available only through 1982.

Question 4. What has been the cost of U.S. obligations, including a pro-rata share of strategic defense, incurred each year for the past 15 years as a result of the United States-Japan Mutual Defense Treaty?

Answer. We have no way of providing a precise response to this question. U.S. forces stationed in Japan and at other locations in the Pacific fulfill an extensive variety of missions in addition to those directly related to our obligations under the Treaty of Mutual Cooperation and Security. It would be impossible to differentiate between the costs incurred by U.S. forces in Japan which are related solely to the defense of Japan and those which are related to our broader defense interests and objectives in East Asia and the Indian Ocean, and we have never attempted to do so.

The United States incurs annual costs of about $2.2 billion to maintain its force presence in Japan. Japan also makes a substantial annual contribution to the support of U.S. forces there. For example, in JFY 1984 (which ended on March 31, 1985), Japan contributed approximately $1.16 billion in support of U.S. forces in Japan, equal to about $20,000 per capita for U.S. servicemen stationed in Japan. This support included funds for new construction, renovation and maintenance of operational and support facilities, local salaries and benefits, and, pursuant to the Mutual Security Treaty, the rent-free use of extensive facilities encompassing nearly 82,000 acres of land. These facilities exist not only for the defense of Japan, but also for the preservation of vital U.S. and Western security interests throughout Asia and in the Indian Ocean area.

Question 5. Are the relative defense burdens for defense of the Pacific Basin undertaken by the United States and Japan under that Treaty equal in proportion to the economic strength of each country?

Question 6. Could the United States lower its defense expenditures in the Pacific Basin, and reduce the need (for) security assistance to other countries in the area, if the defense burden were equitably divided between the United States and Japan?

Answer. In addressing these questions it is important to bear in mind that, under the terms of Article 9 of the 1946 Japanese Constitution, "the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as a means of settling international disputes." Article 9 further stipulates that "land, sea, and air forces, as well as other war potential, will never be maintained." Japan's defense forces therefore are restricted to self-defense and prohibited by the Constitution from fulfilling any regional or international military responsibilities.

In addition, neither the United States nor our other Asian friends and allies have sought a Japanese role in the defense of the Pacific Basin beyond the contribution to regional peace and stability which Japan makes by providing for its own defense. We continue to believe that a Japanese role in the defense of the Pacific Basin is neither necessary nor desirable.

However, the United States and Japan have agreed to a division of defense roles and missions in which Japan has responsibility for protecting its territory, the surrounding seas and skies, and the sea lanes out to a distance of 1,000 nautical miles. For our part, we have said that in the Northwest Pacific we would provide the nuclear umbrella and power projection forces necessary and assist Japan and the Republic of Korea in the defense of their territories. In the Southwest Pacific and Indian Oceans, the United States would provide the nuclear umbrella, power projection forces as necessary, and sea lane protection forces. The Administration strongly supports this division of roles and missions as representing the best strategic formula for defending our mutual interests in the Pacific and maintaining peace and stability in the Asian region.

Within the above parameters, we do want Japan to be able to defend itself better. We have stressed to Japan that it should carry a greater share of the common defense burden by increasing its capability to provide for its own defense. We have not focused on Japanese defense spending *per se,* but on defense roles and missions. We believe that Japan needs to quicken the pace if it is to be able to acquire the capability to carry out its agreed defense roles and missions before the end of the decade. We have made this position clear to Japan.

An increased Japanese capability to carry out its agreed defense roles and missions will contribute to peace and stability in the region, and help to deter potential aggression. However, this would not mean that the United States could reduce its own force presence in the area. Just as we are working to increase the level of deterence in East Asia by upgrading and modernizing our own forces in the region, we are encouraging other friendly nations in East Asia to do likewise.

Question 7. Would it require renegotiation of the United States-Japan Mutual Defense Treaty if the defense burden were to be more equitably divided?

Answer. Renegotiation of the United States-Japan Treaty of Mutual Cooperation and Security would not be required in order for the agreed division of defense roles and missions between the United States and Japan to be adjusted. In fact, in the years since the 1960 Treaty of Mutual Cooperation and Security entered into force, the United States-Japan security relationship has evolved to meet changing realities, thereby demonstrating the Treaty's flexibility. In 1975, for example, the two countries agreed that ministerial level, bilateral defense consultations should take place at least annually. In 1978, the Security Consultative Committee approved guidelines for United States-Japan defense cooperation, which opened the way for bilateral defense planning studies for the defense of Japan, studies of ways in which Japan could assist U.S. forces, and for increased bilateral exercises and training. In 1981, Prime Minister Suzuki stated that Japan's defense policy included protection of its territory, surrounding seas and skies, and sea-lanes to a distance of 1,000 nautical miles.

On the other hand, an adjustment of defense roles and missions envisioning a Japanese role in the defense of the Pacific Basin would raise significant constitutional questions with respect to Article 9 of Japan's Constitution, which stipulates that "land, sea, and air forces, as well as other war potential, will never be maintained." While Article 9 was subsequently interpreted to permit Japan the inherent right of self-defense under the United Nations Charter, there are significant Constitutional constraints on the development or maintenance of Japanese military forces beyond those which would be required for self-defense. Moreover, other nations in the region, who have not entirely forgotten the events of World War II, might view with concern any suggestion that Japan should play a role in providing for East Asian security.

Question 8. Has the strategic situation in the Pacific altered perceptably since the United States-Japan Mutual Defense Treaty was ratified?

Answer. Yes, and not entirely to the good. For example, the Communist victories in Indochina in 1975 posed new threats to friendly nations in the region. It also gave the Soviet Union an opportunity to increase its involvement in Southeast Asia affairs.

In addition, the Soviet Union has made major increases in its force presence in East Asia, particularly since 1978. The Soviet East Asia fleet, with two aircraft carriers and over 800 ships, is the largest of the four fleets in the Soviet Navy. In addition, over 135 SS-20's have been deployed in Asia. Finally, the Soviets have deployed modern bombers and fighters in East Asia, involving significant forces (including MIG-23's) at the former U.S. base at Cam Ranh Bay in Vietnam, and MIG-23 aircraft in the Northern Territories.

However, there have been positive developments as well. The normalization of relations between the United States and the Peoples' Republic of China has brought about an increased level of stability in East Asia. Moreover, tentative contacts between North and South Korea have helped to reduce slightly the level of tension of the Korean peninsula.

Finally, in spite of their concentration of military power in the region, the Soviets have been unable to translate their presence into significant political gain. There are a number of reasons for this, including a healthy suspicion of Soviet motives on the part of most countries in the region and the general unattractiveness of the Soviet political system. We also believe that the continuing presence of U.S. forces in East Asia, a symbol of our commitment to our friends in East Asia and our interest in peace and stability in the region, has served to counterbalance the Soviets' presence. Our facilities in Japan play a key role in our ability to maintain this presence.

State Department's Responses to Additional Questions Submitted by Senator Dodd

Question 1. Around the beginning of March, there was speculation in the press that the Administration was thinking about "channeling money to the rebels (the Contras) through friendly Asian nations." These reports have since been discounted, but I wonder what you can tell us about them.

Has this matter been discussed with "friendly Asian nations?" Is it inconceivable that we might allow more Japanese autos to enter this country in return for a Japanese pledge to support the Contras financially? That sounds pretty far-fetched, but then I wonder.

Similarly, I wonder about using this bill to "launder" money for the Contra program. Can you give us any assurance that this will not happen with respect to the aid recipients in the Far East?

Answer. Channeling of foreign assistance funds through a third country to the rebels in Nicaragua is prohibited by law. We have not conducted any discussions with friendly Asian governments concerning funding for the Nicaraguan Contras.

Question 2. We had a good chat in the office the other day and talked a bit about the prospects for military reform if General Ver comes back as Chief of Staff. What would be the Administration's reaction to the re-appointment of General Ver, if that's what Marcos does? Would it be business as usual? Would you continue to seek substantial increases in military aid?

Answer. There are two aspects to this question; one concerns personalities and the other the course of institutional reforms within the Philippine military. General Ver's status is a question which President Marcos will decide. Our own attitude on that particular question will be shaped in large part by how the Filipino people themselves view his decision. We are strongly of the view, and the Philippine civilian and military leadership know it, that it is of the utmost importance that the Philippine military have the best possible professional military leadership; and that it be unsullied reputation. On the larger question of ongoing reform in the Philippine military, any retrogression for whatever reason would cause us the utmost concern. The leadership is aware that we have recommended enhanced military assistance to the Congress with the clear understanding that the reform measures which have been taken over the past several months will continue and strengthen. Anything less than continued progress over the next months would necessitate consultations between the Executive Branch and the Congress to determine next policy steps. Our policy lines are clear—we are stressing the importance of broad reforms to achieve a thoroughly professional military which (1) has the material support it needs, and (2) can regain the confidence of the Filipino people and help defeat the Communist insurgency.

Question 3. During my recent visit to the Philippines, a number of people with whom I met asked if we couldn't make increased use of the Private Voluntary Organizations as way of getting more mileage out of the aid program?

Answer. Some Philippines observers have suggested that all our development assistance should be channeled entirely through non-governmental organizations such as voluntary agencies and church groups. In fact, we are doing a lot with these groups already. In FY 1984, $20 million of grant food aid went to Catholic Relief Services for both "core" programs in supplemental school and mother/child feeding and for a short-term, high-impact effort to help the unemployed poor. CARE also had a $5.6 million Title II program in FY 1984. AID is requesting $3 million for DA grants to PVOs in FY 1986 in addition to the $7 million request for Title II funds.

We are seriously interested in increasing the share of aid flowing through private channels, but there are limitations on how far we can go. We recognize that the Philippine Government could assert the right to administer ESF funds. Even DA has traditionally flowed through or at least has been programmed in concert with the government, especially since much of this has been in loan form requiring government guarantees.

It would, of course, be administratively feasible to make a substantial increase in programming through private channels. The cost, however, might be high in terms of diluting our development objectives in favor of a welfare orientation, serious monitoring problems, and lost opportunities for fundamental policy dialogue with the Philippine Government on key economic reforms. We think the balance we are striking now between public and private channeling of aid is about right. We will continue, nonetheless, to entertain new approaches to private channel disbursement.

Question 4. With the economic reforms that are underway in the PRC, would the Administration support a modest aid program in support of those reforms and in support of helping U.S. investors and/or exporters?

Answer. The Administration has been trying since 1982 to remove the prohibition against assistance to China which is contained in section 620(f) of the Foreign Assistance Act. The necessary amending language has been included in three successive foreign aid authorization bills, but the bills have not passed, for reasons unrelated to China. The House Foreign Affairs Committee and the Senate Foreign Relations Committee have reported out bills for FY 1986 which contain language allowing the President to find China or other Communist countries eligible for assistance if it is in the national interest.

If the legal prohibition is removed, China would become eligible to participate in ongoing AID technical assistance programs, under current funding levels, in the same manner as do most other countries. We have informed the Congress, however, that we have no plans for a bilateral assistance program for China.

China has in the past expressed interest in receiving concessional financing from the United States, but the Chinese have wanted such financing for the sort of large capital development projects in which our traditional aid programs do not get involved. The Chinese have not asked for assistance to support their economic reform program, and we have not considered extending such aid.

If, in the future, we were to propose an economic assistance program for China, it only be after careful scrutiny within the Executive Branch, and would of course be subject to the authorization and appropriation process of the Congress.

Question 5. I wonder what your thoughts are on the PRC and exports to it requiring COCOM clearance? Are the burdens imposed worth the safeguards? Are American exporters at a great disadvantage because of the COCOM requirements on trade with China?

Answer. U.S. export control cases going to COCOM have risen dramatically from about 500 in 1981 to oer 2,250 in 1984. The rising number of cases can be attributed to the increase in U.S. submissions for China, reflecting the decision of the Administration to raise the level of high technology items licensed for export to China. China cases accounted for 90 percent of all U.S. submissions to COCOM in 1984, and these cases alone accounted for 64 percent of the total COCOM caseload.

At the February COCOM High Level Meeting, the United States made proposals to expedite handling of China cases through administrative means in COCOM. We are discussing several proposals with our COCOM partners to alleviate this caseload. About half of the U.S. case submissions fall into the so-called green zone, which the United States has determined not to pose any security concerns for ourselves or our allies. We do not believe that U.S. exporters are at a disadvantage in COCOM insofar as the time it takes our COCOM partners to review U.S.-China cases. COCOM countries generally approve each other's China cases 8 weeks or less. In response to the large volume of U.S.-China cases, we are vigorously pursuing with our COCOM partners means to remove from COCOM consideration those categories of cases which are at the low end of the technology spectrum and do not pose a threat to our mutual security.

[Whereupon, at 3:37 p.m., the subcommittee adjourned, subject to call of the Chair.]

SECURITY AND DEVELOPMENT ASSISTANCE

(Sub-Saharan Africa)

FRIDAY, MARCH 22, 1985

United States Senate,
Subcommittee on African Affairs,
Committee on Foreign Relations,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:03 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Nancy L. Kassebaum (chairwoman of the subcommittee) presiding.

Present: Senators Kassebaum, Pressler, and Sarbanes.

Senator Kassebaum. The hearing will come to order.

It is a pleasure to welcome the panelists on what I think is a very important subject. I would hope just because I am the Senator here at this particular point that you will not take that as any indication of lack of interest. Great interest does exist in this subject, as a matter of fact, on assistance to sub-Saharan Africa.

Certainly for me one of the questions that has been troubling in the 4 years that I have chaired this subcommittee is the fact that in the last 6 years $50 billion in developmental assistance has been spent by the international donor community in sub-Saharan Africa, and yet we seem to be continually plagued with really a very tragic situation.

Dr. Berg, I know you have testified before—I believe it was about 2 years ago—on the facts of agricultural production and our development programs there.

We are taking a procedure a bit in reverse from out normal procedure this morning in that the administration will be testifying after the public witnesses, although they would normally testify first. We have done this so that they might be able to respond to some of the questions that you might be raising. I think this will help us in being able to explore some of the questions that exist, and hopefully to come up with some answers.

I would just like to state before we start that in the fiscal year 1986 request for Africa there is $1.31 billion which is a slight reduction from the total for fiscal year 1985. The new request maintains developmental assistance at roughly current levels while increasing military and security assistance programs throughout the region.

Military aid, for example, is increased by 29.7 percent, while development assistance is increased by 1.3 percent.

It is a pleasure to welcome our first panel. Our first witness is Dr. Elliot Berg, an economist, author of the World Bank's Report on Accelerated Development in Africa.

Also, Dr. Carol Lancaster, director of the African Studies Program at the Georgetown University School of Foreign Service, and formerly Deputy Assistant Secretary of State for African Affairs.

Also, Mr. Jack Shepherd, senior associate of the Carnegie Endowment for International Peace and author of a recent article in the Atlantic Monthly on development assistance in Africa.

It is a pleasure to welcome you all. Does anyone particularly want to go first? Why do we not call on Dr. Lancaster?

STATEMENT OF CAROL LANCASTER, PH.D., DIRECTOR, AFRICAN STUDIES PROGRAM, GEORGETOWN UNIVERSITY

Ms. Lancaster. Thank you very much. I am pleased to be here. I would like to raise two sets of issues with you which are reflected, I think, in the fiscal year 1986 foreign assistance budget and also reflected in trends in U.S. foreign assistance over the last several years.

I have already submitted a longer statement for the record, so this will be a very brief summary of that.

We all know that U.S. aid serves a balance of objectives throughout the world, and these include political and strategic objectives of the United States abroad, advancing development in recipient countries, humanitarian relief, and so on.

The emphasis among these objectives changes from administration to administration. But I think what has happened in the past is, there has been a rough balance among these objectives where the pursuit of one objective has not threatened the achievement of the other objectives.

The emphasis in U.S. foreign aid to Africa right now is strongly political. We are on record as intending to reward our proven friends, and this emphasis is well reflected in the fiscal year 1986 budget.

If you compare what is in that budget to what was in the 1984 budget, you find a rapid increase in military assistance, 60 percent between 1984 and 1986, and that in fact is a faster rate of increase in military assistance than the worldwide rate of increase in military assistance.

I think that raises some interesting questions We have not used military assistance as a significant tool in our diplomacy in Africa in the past. And I am not sure what this reflects right now. Does it reflect an intention on the part of the United States to begin to compete with the major military suppliers in Africa, the U.S.S.R. and France?

Is it aimed at accomplishing other objectives? Is it tied to an explicit policy framework? Frankly, I do not know the answer to that, but I think the rapid increase raises some of these questions It raises a concern among a number of observers that some of this aid is going to be used not so much to defend borders against security threats, but to maintain the political position of recipient governments against internal threats.

A second major reflection of our emphasis on achieving political objectives is in the U.S. position on the replenishment of the International Development Association [IDA], the soft loan window of the World Bank. As you know, the U.S. position for the seventh, the most recent replenishment was to provide 25 percent of a $9 billion replenishment.

The World Bank had calculated that to maintain real levels of IDA assistance worldwide, the replenishment would have had to have been $16 billion up from $12 billion in IDA Six because of inflation. The U.S. position held and the replenishment was at $9 billion.

The competitors for IDA loans include China, India, some of the poorer Asian countries and much of sub-Saharan Africa. The IDA issue has to be seen by those who are interested in Africa as an African issue. IDA is the major source of concessional aid to Africa, and the United States is a major contributor to IDA.

What the United States does makes a lot of difference in terms of what is flowing to Africa. What is troubling in addition is the absence of any IDA funds in the out year aid budget figures.

I do not know whether this is a reflection of a policy decision that has been made not to support IDA, whether it is an effort to reduce out year outlay numbers or whether it is a reflection of uncertainty on the part of the administration as to how it is going to approach IDA, but I think IDA has to be seen as in large part as an African issue, and it is a very troubling one for me.

IDA provides funds much more for development purposes than a bilateral donor can do, because obviously the World Bank doesn't have the political interests in recipient countries that the United States or other donors do, so it can be a very effective channel for development aid, and yet we seem to be reducing our support for it.

Another reflection of some of the emphasis on political goals is the changing levels of U.S. bilateral aid to individual countries. When aid levels are raised or lowered for political purposes you can disrupt development planning. You can disrupt projects if that is what you are funding, or expectations of foreign exchange.

This has happened in Zimbabwe. This has happened in Burkina Faso, and there are some other changes in the 1986 individual country levels which I find puzzling, such as a decrease in aid for Mali, which has undertaken some difficult reforms. These raise some questions, too.

A second set of issues I think is worth looking at in the context of the 1986 aid budget is the development strategy that seems to underlie increasingly U.S. aid to Africa. The United States has been emphasizing in its public statements and in its discussions with African governments the need for policy reform.

Perhaps a lot of the intellectual underpinnings of that come from Elliot Berg who is sitting right next to me here. If governments do not get their policies right, then aid is not going to be very effective, and the policies one refers to are overvalued exchange rates, prices that are too low to encourage farm production, subsidies, bureaucratic interference with economic activity, and so on.

I think this makes a lot of sense, but there are two troubling aspects to this, and I think these ought to be examined. One is whether we, the United States, are in a very good position to give policy advice to Africans.

I was told several months ago by someone in AID that there were a total of nine economists working in Africa in the field, and 10 working on Africa in Washington, in AID. That is not very many when you consider that we are dealing with over 30 countries.

I fear we do not have the expertise to give policy advice on economic reforms which are going to be difficult for Africans and are going to have major impacts on their economies if they adopt our policies.

As we begin to tie our aid to policy change, we have to be concerned about the quality of our advice. There is a GAO report recently which picked up on this problem, and AID is concerned about it, too, though I do not know what it is doing about it.

The second aspect of the policy reform movement which I find also troubling is that policy reform may be necessary, but it is not a sufficient condition for economic recovery and growth in Africa.

A lot of African countries have faced very serious balance-of-payments problems because of the decrease, collapse, really, in commodity prices, prices for the commodities that they export and on which they depend for foreign exchange. Many of these prices remain low today.

Commercial lending has dried up on the continent. Aid has not increased very rapidly, and a number of countries have assumed commercial and public debts which they have to pay off.

I think it is worth remembering that a large part of those debts are becoming debts to the International Monetary Fund, and the Fund does not reschedule debts as a policy. So if you get into arrears with the Fund, your access to Fund resources are cut off.

Without more resources, even those countries that get their policies right do not have very good prospects for growth. For example, a recent World Bank study of Zambia, a country which has undertaken some very stringent economic reforms, projects a continuing decline of per capita income of 1 percent a year for the next several years, given the amount of resources that are likely to be available.

So I think there is a very serious problem here. I am afraid that the United States, and the World Bank, which is increasingly moving into policy base lending and other bilateral donors, may be setting themselves up for another aid disappointment if we do not realize there are two sides to this equation.

One is the reform; the other is the resources that governments are going to have to have in order to import their basic necessities and import investment goods that will allow them to grow.

With that, I will stop. There are many more issues that one could delve into, but I have touched on some of the major ones that occurred to me.

[Ms. Lancaster's prepared statement follows:]

PREPARED STATEMENT OF CAROL LANCASTER

Madam Chairman, members of the subcommittee, thank you for inviting me to share a few thoughts with you today on the issues and questions raised by the administration's foreign assistance budget for Africa proposed for fiscal year 1986. In my view, the administration's proposals for fiscal year 1986 and the trends in U.S. foreign assistance to Africa over the past several years raise four major issues which the subcommittee may wish to examine.

First, is the balance among the objectives for which foreign aid is provided to African countries in danger of being upset? U.S. foreign aid has always been provided for a variety of objectives, including advancing U.S. political or strategic interests abroad, promoting development in recipient countries, providing humanitarian relief in natural or man-made disasters, disposing of surplus commodities, or assisting U.S. economic and commercial interest abroad. Of these, the principle objectives have been political/strategic and developmental.

Most administrations have sought to achieve a balance between these objectives in which promoting one did not undermine the effectiveness of supporting the other. That balance has also been important in maintaining domestic support for foreign aid among those key groups and individuals primarily interested in U.S. security abroad as well as those mainly concerned about helping others develop.

A look at the mix of U.S. aid in the fiscal year 1986 budget and how that mix has changed over the past several year points to the strong and growing emphasis on promoting U.S. political interests in Africa. The fastest growing U.S. aid program to Africa is military aid which has risen by nearly 60 percent over the past 3 years, faster than the increase in U.S. military assistance worldwide. In the past, military assistance has not been an important tool of U.S. diplomacy in Africa. Is this now beginning to change? What are our objectives in providing a rapidly increasing amount of military assistance to Africans? Are we intending to compete with larger arms suppliers such as the U.S.S.R. or France? Are our arms to be used by recipients to defend their territories or to suppress domestic political instabilities? Does the administration have a policy on the objectives and use of military assistance to Africa?

The Economic Support Fund is the second fastest rising program in Africa. It is projected to increase by 40 percent over 1984. The increase in this program over the past several years is a reflection of several factors. First, ESF monies are fast dispersing, flexible and relatively easily deployable. These qualities make this type of funding especially appropriate for increases or decreases tied to changing U.S. political interests on the continent. ESF moneys also provide balance of payments support which meets the pressing needs of African governments starved for foreign exchange, as many are today. Finally, ESF funds can be deployed to offset the costs of imports of military goods. Even though the MAP program currently provides military transfers to African countries on a grant basis, the maintenance of such transfers is often expensive, requiring the import of spare parts and other materials, and so can add to the import costs of financially strapped African governments.

Development Assistance loans and grants to Africa are largely for funding development projects, such as rural roads, primary health care centers and so on. These projects often take several years to plan, gain approval and be implemented and so funds for them disperse slowly. Funding for Development Assistance shows virtually no change between 1984 and 1986. These moneys, mainly for slow dispersing project funding, are less flexible and less useful for deployment in support of political or strategic objectives. Also, these loans and grants are less useful in meeting the urgent needs for foreign exchange on the continent.

The major source of concessional aid to Africa are funds from multilateral development institutions, particularly the International Development Association. U.S. contributions to the current replenishment of IDA have fallen in relation to the previous replenishment. It is worth noting that IDA is the largest source of concessional aid to Africa. The fall in IDA funds, mainly from a drop in U.S. contributions, may result in a decrease in IDA lending to the continent. U.S. contributions to IDA are less useful for promoting political objectives abroad since the United States cannot control their allocation. It is for this reason that the administration has reduced its support for IDA. It is not clear what future U.S. policy toward IDA will be. Outyear budget figures include no funding for IDA VIII. Is this a sign that the administration is considering eliminating its support for IDA altogether? Or is it simply a way to reduce outyear outlays? Whatever the thinking of the administration on IDA VIII, it must be recognized that the IDA replenishment is an African development issue and its resolution will have an enormous impact on the continent.

Finally, it is worth noting that 43 percent of U.S. aid to sub-Saharan Africa for 1986 is proposed for four countries: the Sudan, Kenya, Somalia and Liberia. These are all countries of major political and strategic significance to the United States. Countries where U.S. aid is projected to drop significantly from 1984 to 1986 include Zimbabwe, Burkina Fasso, Cape Verde, Mauritania, Mali and Mauretania. The drop in aid to Zimbabwe and Burkina are clearly politically motivated. The decrease in aid to others is puzzling, especially in the case of Mali, where major economic reforms are underway and in Mauritania, where development problems are severe and exacerbated by the prolonged drought.

The rapid rise in MAP, the significant rise in ESF, the virtually flat levels for Development Assistance, the fall in U.S. contributions to IDA and the country aid allocations, all reflect the strong political orientation in U.S. aid—in the words of Assistant Secretary of State Chester Crocker, of rewarding our "proven friends." Both MAP and ESF lend themselves to the allocation of aid for political purposes. The decreased emphasis on multilateral aid also reflects the strong political emphasis in U.S. aid.

A strong political element in U.S. aid is not new and is not necessarily a bad thing. The danger in the current tilt toward emphasizing U.S. political objectives in aid to Africa is that the delicate balance among aid objectives can be upset. Too much emphasis on the political objective can undermine the achievement of development objectives, could ultimately backfire diplomatically and could erode support for aid in the United States by those groups concerned with development.

There is a second set of issues on U.S. aid to Africa which the subcommittee may wish to explore. These involve the increasing focus on linking U.S. aid to Africa to policy reform by recipient governments. There is little disagreement among development experts in Africa and abroad that African government policies have contributed substantially to the current economic crisis on the continent. Overvalued exchange rates have encouraged imports, discouraged exports, discouraged domestic agricultural production and led to burgeoning black markets and smuggling. Low food prices have also discouraged agricultural investment and growth. High rates of protection for domestic industries have discouraged efficient production and export. The list of policy problems is a long one. African political leaders have increasingly agreed with foreign donors that policies must be changed to ensure a more efficient use of resources if economic recovery and growth is to take place.

The International Monetary Fund has long conditioned its loans to policy changes by borrowers designed to restore equilibrium in their balance of payments. The World Bank is increasingly tying its aid to policy change by recipients. The United States is perhaps the most outspoken advocate of policy-based lending in support of reforms designed to expand the private sector in African countries. The recent proposal for an Economic Policy Initiative, now called an Economic Policy Reform Program, reflects the increasing emphasis on policy reform in U.S. statements on aid policy. Other bilateral donors appear to be following suit.

While encouraging policies leading to a more efficient use of resources in Africa is an important and useful function for donors to perform, there are several troubling elements in the U.S. emphasis on policy reform. First, whatever the rhetoric, there may be real limits on the ability of the United States to tie its aid to policy change, particularly in countries where there are strong political interests. It is ironic that U.S. support of IDA has decreased at the very time when policy-based lending has become so popular, for IDA, as a multilateral institution without the array of political and other interests in recipient countries that the United States has, is one of the most effective policy-based lenders around.

A second troubling aspect of the U.S. emphasis on policy reform is the lack of expertise in the U.S. Government on economic and policies in Africa. As of several months ago, the Agency for International Development had only 9 economists working in Africa and 10 working on Africa in Washington. How can the United States give good policy advice when it has so small a pool of economic expertise at its disposal? This is a problem the GAO has cited in a recent report.

Finally, policy reform is a necessary but by no means sufficient solution to Africa's economic problems. One of the major sources of those problems has been the unstable and recently, hostile international economic environment in which African countries function. Most African countries depend on the export of a few primary products, such as copper, groundnuts, cocoa, coffee, or cotton for the major proportion of their foreign exchange. Other sources of foreign exchange include commercial borrowing and foreign aid. In recent years, the prices of many primary commodities have dropped to their lowest real level since the Second World War. Many are not expected to improve in the immediate future, despite the economic recovery in the United States and elsewhere. Foreign aid to the continent has risen only slowly for the last several years and commercial lending has dried up. Meanwhile, Africans must continue to import most of what they consume or invest. And many face heavy debt burdens from extensive commercial borrowing in the 1970's and from costly loans from the IMF more recently. (It is worth noting here that the IMF, like the World Bank, does not reschedule its debts as a matter of policy. Countries which accumulate arrears to the Fund are cut off from further access to funds until the arrears are eliminated.) It is possible that in the near future, a number of African countries will have to pay more out in foreign exchange to service debts than they will get in new inflows. It is very difficult to see how countries, even with the most efficient policies, will be able to recover and grow under such circumstances. While the Economic Reform Program was designed to help countries financially which were willing to undertake needed reforms, it is not yet clear how that program will work, whether there is sufficient funding in it to make a significant difference in the financial situation of recipients, or indeed, whether it has a future. It is hard to be hopeful about the economic future of the many troubled African countries if some easing in their foreign exchange and financial situation does not occur. The United States could play a key leadership role in ensuring that adequate resources are available to those countries serious about reform and recovery. It does not appear to be doing so at present.

Senator KASSEBAUM. Thank you very much, Dr. Lancaster.

Dr. Berg, it is a pleasure to welcome you back.

STATEMENT OF ELLIOT BERG, PH.D., BERG ASSOCIATES

Mr. BERG. Thank you, Senator Kassebaum. It is a pleasure to be here again.

Senator Kassebaum: Do you see any advance since you commented 2 years ago on what you thought we should do?

Mr. BERG. I think there has been some advance along the lines mentioned by Carol Lancaster. There have been positive changes in policy, and I would like to pick up on some of these, if I may, and pursue them in a slightly different way.

We are now launched in a new intellectual venture in the development field. Things have changed quite radically in the way that people perceive the development problem. This change has happened in the last 10 years, but especially in the last 5.

In the old days, maybe the good old days, because things were simpler then, most economists, most textbooks on development, had a fairly mechanical formula for increasing growth. The secret was raising the rate of investment. Investment usually embodied new technology, and the higher the rate of savings and investment, the faster a country would develop.

There were lots of exceptions and amendments in that theory, but basically that was what the books said. In the 1970's these ideas came under some careful scrutiny, mainly because some observers began to see that many countries in the world were investing a lot of resources, but were not growing very fast.

They were often countries whose economies were characterized by many so-called distortions. They had overvalued exchange rates, or they paid their farmers a lot less than the crops they grew were fetching on world markets, or they suppressed interest rates in domestic credit markets and did other things that most economists regarded as unfavorable to growth.

Out of these observations came the view that the policy environment was a very important consideration in thinking about what makes countries grow faster or slower. The African experience in the seventies was particularly instructive in this regard.

We saw in Africa in the seventies a very high rate of investment by historical standards, and in comparison with other parts of the world. For example, in the sixties, according to the best numbers we have, African countries invested on average 16 percent of their

GNP, which is what it was in Southeast Asia, the other main poverty part of the world.

By the 1970's, this rate had risen to between 20 and 23 percent, which is very high by most standards. A famous economist once said that development consists of raising the savings rate from 5 to 12 percent. In Africa, many countries were investing almost 25 percent of their GNP.

So, there were high rates of investment in the seventies. Much of this was financed by high rates of aid inflow. Aid to Africa in the seventies grew fast, as you mentioned at the outset. The rate of increase was about 5 percent a year per capita in real terms in the seventies.

So, there was a large increase over this decade, and the aid flows were big in per capita terms, as they still are.

Official development assistance [ODA] now averages about $20 a head, but in the poorest countries these aid flows are even bigger, something like a quarter of national income in the semiarid countries—the Sahel and Somalia—which represents an unparalleled proportion of foreign assistance to domestic production.

The productivity of this investment and this aid was so low, for many well-known reasons, including poor rains and civil/military strife. But even taking account of these factors, and of unfavorable external economic circumstances, as in the case of copper exporters like Zambia and Zaire, there were countries that were investing a lot, that were receiving a lot of aid, but which were making extremely slow progress or none at all, because of bad economic policies.

So, the conclusion developed, especially in the African context, that what really matters now is reforming the policy environment, and this is the underlying economic rationale for the new direction in aid policies; the aid community has now shifted strongly to policy based lending, that is, tying aid flows to changes in government policies that are regarded as conducive to growth.

Now, my own view is that we probably have oversold this idea. Policy is certainly important, but this new orientation raises a lot of questions, some of which already have been mentioned this morning.

The first and, I think, the most difficult one is that we are faced with a fundamental contradiction when we are dealing with money and policy reform. It is one that everybody in this Government knows about: Governments are reluctant to make policy changes and often only make them when they have no other alternatives. The availability of aid can in this sense slow reform; it allows governments to continue to do what they are now doing.

So, on the one hand, money from outside can reduce pressures for change. On the other hand, partly because of what has been happening in the international economy, and partly because of the disturbances that are implicit in any reform effort, there is a need for resources to smooth these policy changes.

So, we have a contradiction. On the one hand, we have to get resources into this continent to help people make changes. On the other hand, the volume of resources we make available impedes change as well. That is the first problem.

The second problem has to do with the relationship between policy and institutions. On the whole, most of us have taken a fairly simpleminded view of policy. We have stressed mainly prices—the price of foreign exchange, the price of money—for example, interest rates—prices paid to producers. Emphasis on prices is the bias of most economists.

But poor economic performance is the result of much more than bad price policies. Institutional factors are also extremely important.

For example, we can say that despite these infusions of large amounts of resources in the seventies, growth rates were unimpressive, and these economies stagnated in part because they paid too low prices to producers, or they kept interest rates too low, or they pursued other policies that were not appropriate. But perhaps more important were the weak economic decisionmaking institutions of many African governments.

Ministries of Finance, Ministries of Planning, budget agencies are poorly staffed, and procedures for screening investment proposals are very thinly developed. So when new resources became available, as they did in much of the continent in the seventies, investment decisions were made which were not appropriately examined.

That is probably the major factor explaining the poor performance that occurred, despite high investment rates in the seventies. So it is not just getting prices right that can turn things around, though that will help. Attention has to be given also to the long-run task of strengthening basic institutions.

There is another set of relevant institutions that should be kept in mind—those that deal with farmers. In most of this continent, at least in two out of three of the countries of the contintent, farmers are provided with inputs—fertilizers, chemicals, pesticides, equipment—by state agencies.

Sometimes these are monopolies. Sometimes they try to share with private distributors. But the state presence is overwhelming on the input supply side. The state presence is also overwhelming on the output side. State organizations still market much of the basic food grains in the continent, and almost all of the export crops. So that we have on both sides of the farmer the state organization, usually with exclusive access.

In the last 5 years, some progress has been made in liberalizing those arrangements, in allowing more open and competitive marketing systems. But that progress has been slow. The main reason has been that institutional change on a broad scale is difficult at best, and in many instances, African governments are unwilling to take some of the necessary steps.

There are a lot of good reasons why they are unwilling to do this. For example, they often prefer to restrict the role of private traders, because they think that markets do not work very well, or because in some cases many of these private traders are foreigners or belong to ethnic groups that are not popular with the political leadership.

There are lots of such reasons, all of which are understandable, but which often prevent genuine liberalization in agricultural markets now. And without broader liberalization, sustained and general agricultural progress will remain beyond reach.

The final factor has to do with the relationship between policy and knowledge. Right now, it seems to be the consensus among those who worry about those things that there is no viable, well tested, profitable agricultural technology that is available for people in dry land farming, which is where most African farmers are.

This is a matter we talked about, I think, a couple of years ago. It has not changed. In fact, the evidence now has accumulated that few good technical packages are at hand, which means that even if all of the policies were right, and even if all the institutions were right, however we envisage being right on the institutional side, we would soon come up against that technological constraint.

The usual answer is more research, and this is generally right. But the problem in Africa is that it relies on foreign aid and technical assistance in this area, and the ability of donors, of outsiders to strengthen those institutions is limited. This is not an area where financial and technical assistance has been effective.

After all, by some measures, more money is spent in Africa now on agricultural research than in any other part of the developing world—for example, relative to the value of agricultural output. But almost everybody agrees that it is poorly done, in part because the presence of so many foreigners, combined with the lack of managerial continuity, inadequate budgets, poor administrative structures, leads to an inability to carry one generation of research over to another. These are some of the reasons we have seen so little new technology in millet and sorghum. And it is not evident that things can be made better by simply spending more money the same way as in the past.

All of this means, Madam Chairman, that we are launched on a new kind of adventure in the aid business. We now say policy is important. We have some fundamental contradictions in the way we deal with this relationship between money and reform which we have not really sorted out very well yet, and we are faced with some extremely fundamental difficulties in the institutional and in the research area about which our knowledge is limited and our capacity to deal with these problems uncertain.

Thank you, Madam Chairman.

Senator KASSEBAUM. Thank you very much, Dr. Berg.

Mr. Shepherd.

STATEMENT OF JACK SHEPHERD, SENIOR ASSOCIATE, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

Mr. SHEPHERD. Madam Chairman, as the son of parents from Kansas, I am especially pleased to be here this morning, and also as the third of the three-person panel I am in a position of finding that much of what I wanted to say has already been said, and far more eloquently than I could have phrased it.

I am concerned about several things. I do feel this is an important moment in Africa's history. We have now dealt with a long-term serious draught and food aid has reached Africa. That immediate short-term emergency situation is under control, but it is an important moment, because it is a transitional moment, transitional from the emergency phase of dealing with Africa's problems to the long-term considerations that have been raised here this morning in terms of long-term assistance and long-term development in Africa.

During my brief year at the Carnegie Endowment, some of the questions that I have been raising and looking at have indeed concerned themselves with long-term economic aid, and these questions would include: Has economic aid from the United States and the West been wasted on ill-conceived projects in Africa? Has it contributed to or worsened the problems it was intended to alleviate in Africa?

What has been the U.S. aid policy in Africa, and what has been the impact of that policy? And what kind of long-term development aid or assistance should Africa now begin to receive?

As the previous two speakers have indicated, the answers to these questions carry profound implications. They will lead to policies that in turn will determine how fast and in what manner Africa recovers.

They will shape the levels of support from the international agencies, including the United States and USAID and the World Bank that are intended to help Africa's farmers and other producers get back on their land and produce food, and they will affect the international economics and political policies of at least 26 African nations that are now in need of long-term assistance.

We have heard the details of what the problems have been in Africa. We have heard the details of the policy questions. There are certain areas that I would want to emphasize. One certainly would be the area of analyzing the issues, the reasons behind Africa's long-term problems, particularly the population issue.

But moving on and sort of summarizing my position on this, it seems to me rather clear that as Dr. Berg has pointed out, the large influence of aid during the seventies to Africa has had a mixed impact. In some cases, the influence has gone to projects that were not productive, and Dr. Berg has spoken eloquently about this before this forum and others, about State farms and irrigation projects.

They also have gone to other situations in which they have not been successful. Ernest Stern, as we know, at the World Bank said we have failed in Africa. We have not fully understood the problems. We have not identified the priorities that we should meet in Africa. I should point out, as has been mentioned here, that not all Western aid in Africa has failed, nor has all failure in Africa been Western.

One of the most important areas, I think, to take a look at briefly is the area of the reaction to that aid in Africa. Very clearly the reaction and the results have been dismal. In sub-Saharan Africa, per capita food production decreased in the seventies by an average of 1.2 percent per year.

Production of major food crops fell by 14 percent. Part of the reason this has occurred and these other production factors have occurred was that the aid that was given in the seventies did not reach the agricultural sector of Africa, or if it did, it did not reach the small owner producers who were thought to be Africa's most productive farmers.

There is a consensus among the donors but not among the Africans, I should point out, that changes will have to be made in internal policies, in specific African nations. Again, my two colleagues have pointed up some of the issues and questions that I would agree with about those changes.

Few would agree, however, how those changes should be made. For its part, the United States is shifting its aid policy from a multilateral to a bilateral emphasis, with significant cutbacks in aid levels to important multilateral organizations.

American bilateral economic aid is being linked to specific internal changes in the recipient African nations. And finally, the United States is putting forth an African economic policy based primarily, I would suggest, not on need but on political ideology and East-West considerations.

For example, I think Dr. Lancaster mentioned an earlier figure. While American economic aid to Africa increased by about 40 percent since 1982, American arms sales and assistance has jumped 150 percent to the world's hungriest continent.

In its shift from multilateral to bilateral assistance, the United States has opposed loans to Africa considered by the World Bank or smaller multinational development agencies.

The administration has refused to increase contributions to the World Bank International Development Association, as Dr. Lancaster pointed out, and it is cutting back donations to the International Fund for Agricultural Development [IFAD], which during the last 6 years has spent $400 million to help poor African farmers.

Further, the United States is not renewing funding for the International Planned Parenthood Federation [IPPF], and has frozen a grant to the U.N. Fund for Population activities. These are shocking policy considerations, given Africa's 3.2 percent population growth rate. What then should be the next step in Africa?

Some of the issues have been raised this morning by my two colleagues, and they include the opening of a policy dialog rather than policy advice. I think that is a key factor. Much of the aid that we have been discussing here today is tied into or linked into the connection with African countries in terms of their meeting certain policy criteria.

I think we need to engage in a dialog rather than the simple advice. I think we also must reach a consensus among the donors what form long-term assistance will take and its impact on internal African policies and conditions.

Africa's development needs are getting buried beneath budget cuts and politics. This is not a useful way to deal with a change that we all must agree must come to Africa, change in internal economic policies or incentives to agricultural producers or population growth rates or changes in the environment or infrastructure.

Third, I would hope that the United States would lift its vision and its hope for Africa. There is a great emphasis now on short-term economic aid and military assistance, and not enough emphasis on long-term economic development for Africa's neediest nations.

I suggest that perhaps north of the Zambezi River the United States might commit itself to long-term economic aid policy based on sustained engagement with the struggling nations of sub-Saharan Africa, particularly those who are neediest, not necessarily those who are most strategically located, or those who have long-term friendships with the United States.

That, Madam Chairman, is a summary of my position. Thank you very much for letting me come here this morning.

[Mr. Shepherd's prepared statement follows:]

THE UNITED STATES AND AFRICA:

THE NEXT STEP IN FOREIGN AID

Testimony before the Subcommittee on African Affairs,
Committee on Foreign Relations, United States Senate,
March 22, 1985

Jack Shepherd

Senior Associate

Carnegie Endowment for International Peace

Madame Chairwoman, Members of the Subcommittee, thank you for the invitation to testify before you this morning. This is an important moment in Africa's history. The worst drought of this century continues in parts of sub-Saharan Africa, although there is promise of abatement in some regions. Still, perhaps 150 million Africans--about one person in every three below the Sahara--remain in dire need of emergency food. Five million African children died from hunger-related causes in 1984. Millions of Africans face permanent physical and mental damage from chronic malnutrition. In most sub-Saharan African nations, 6.8 million tons of emergency food aid will be needed through 1985 and into 1986 to combat what the United Nations has called "the worst famine in this century."

This is an important moment because it is a transitional moment. Emergency food aid from the West and the United States has at last, after delays, begun to reach the levels that it should in Africa. It is, however, the long-term needs and conditions of Africa that must now be addressed. In sub-Saharan Africa, one looks with optimism for a new United States policy of "sustained engagement" in dealing with Africa's long-term needs.

During my brief year at the Carnegie Endowment for International Peace, I am looking for answers to some basic questions concerning long-term economic aid to Africa. These questions include:

** Has development aid from the United States and the West been wasted on ill-conceived projects? Has it contributed to, or worsened, the problems it was intended to alleviate?

** What has been the United States' aid policy in Africa, and what has been the impact of that policy?

** What kind of long-term development assistance and aid should Africa receive?

The answers to these questions carry profound implications. They will lead to policies that, in turn, will determine how fast, and in what manner, Africa recovers. They will shape the levels of support that the World Bank, the United States, and other international donors will give to African development projects that are intended to help Africa's farmers return to their land and grow their own food. And they will affect the internal economic and political policies of at least 26 African nations that now need emergency food aid and long-term assistance.

Africa is strapped by basic and long-term problems. Some of those problems are internal to Africa, others are external. In some nations, these problems have placed Africa's agricultural sector at the brink of disaster; drought has been the final push over the edge. These issues are well-known, and have been presented before this distinguished committee on several occasions.

It is helpful, however, to touch on some of the major African problems. Africa, for example, continues to receive low prices for its export crops (such as coffee, tea, copper, cocoa), and pay high costs for energy. Africa's external debt has risen from $5.7 billion in 1970 to more than $51.3 billion by 1983. The gap between Africa's export revenues and its import expenditures reached $10.7 billion in 1983. The outflow for repayment of debts now exceeds the inflow of loans.

Inside Africa, some governments have created pricing policies and marketing structures that hold down food prices in the cities, favor the urban consumer over the rural producer, and create disincentives to smallholder farmers. Africa, as these last two years have shown, also has a fragile and, in some areas, deteriorating environment. For example, two provinces of Ethiopia--Wollo and Tigre--suffering from starvation have lost some 12 million tons of topsoil in the last two years, according to Oxfam--U.K.

Africa's food crisis will not be resolved without the resolution of Africa's population crisis. In sub-Saharan Africa, the population growth rate averages about 3.2 percent per year, and has reached 4.1 percent in Kenya, Botswana, and the Ivory Coast. In sub-Saharan Africa generally, populations will double about every 22 years; the number of people in Kenya, Botswana, and the Ivory Coast will double every 17 years. This means that, within the next 20 years or so, most sub-Saharan nations will need twice as many jobs, schools, houses, hospitals, doctors, teachers, nurses, etc.--and twice as much food.

Moreover, the region's rural-to-urban migration rate averages almost eight percent per year. As a result, whereas in 1950 only three African cities had populations of more than 500,000, now 29 cities are that large and several have more than a million inhabitants. This urbanization has changed Africa's eating habits, shaped its food dependencies and needs, and created an urban pricing bias. City dwellers have come to expect low food prices, and now prefer imported wheat and rice to the traditional yams, cassava, and millet.

During the 1970s, some African governments inaugurated a range of projects aimed at increasing domestic-food production. The projects most widely favored--funded by the United States, the World Bank, and other donors--were often large, mechanized, and highly capitalized. Moreover, investment in food production often favored crops consumed by Africans flooding into the cities: wheat, rice, and sugar.

A vast portion of that aid went to what some donors now admit were "easy options"--projects that drew on donor expertise and promised a rapid rate of return. Some money also went into highly visible projects such as highways, urban hospitals, convention halls. Other monies went to state farms, intensive use of deep plowing or chemical fertilizers, and irrigation projects. But these did not necessarily increase yields. Irrigation projects tended to produce a great deal of food, but at a cost calculated at $20,000 a hectare; these projects also sometimes drew off farm labor better used elsewhere, or spread waterborne diseases. Earthscan, an international environment and development institution, concluded in a 1984 study that for every acre successfully irrigated during the 1970s in Africa, another acre of farmland became useless and was abandoned.

The World Bank, in a report issued last September, said that donor nations had pressured African governments during the 1970s to take on projects that were expensive, inappropriate in design and selection, and too large, and that "contributed little to economic growth or to generating foreign exchange to service the debt." These projects--which the Bank labeled "white elephants"--had been selected for their potential in enhancing a nation's political prestige (large state farms, for example) and without regard for the economic rate of return (sugar plantations in the Sudan).

World Bank vice president Ernest Stern said:

> "We . . . have failed in Africa, along with everybody else. We have not fully understood the problems. We have not identified the priorities. We have not always designed our projects to fit the agroclimatic conditions of Africa and the social, cultural, and political frameworks of African countries. This is evidenced by the percentage of poorly performing projects in the agricultural portfolio and by the fact that we, and everybody else, are still unclear about what can be done in Africa."

Not all Western development projects have failed. Nor have all the failures been Western. But during the 1970s, the West invested more than $22.5 billion in economic development into sub-Saharan Africa--the area most affected by starvation today. The amount continues at about $7.7 billion a year (beyond the cost of emergency aid).

The results were dismal. In sub-Saharan Africa, per capita food production decreased in the 1970s by an average of 1.2 percent per year. Production of major food crops fell 14 percent. The volume of food imports increased by an average of 9.5 percent annually. By 1981, sub-Saharan Africa required 3.7 million tons of food aid each year. The United Nations now reports that the region in 1985 will need a total of 9.6 million tons of imported food.

What happened? The simplest explanation is that only a small portion of economic aid from the West was actually invested in Africa's agriculture. Of $7.5 billion given during the 1970s to eight West African nations, for example, only 24 percent was spent on agriculture and less than half of that reached the rural areas. Even less got to smallholder producers, who are thought to be Africa's most productive farmers.

Africa's identified problems, and the West's recent history on that continent, would warrant some new policy suggestions and directions. There is consensus among the donors (but not among the Africans) that changes will have to be made in the internal policies of specific African nations. But few agree how those changes should be made. For its part, the United States is shifting its aid policy from a multilateral to a bilateral emphasis, with significant cutbacks in aid levels to important multilateral organizations. American bilateral economic aid is being linked to specific internal policy changes in the recipient

African nation. Finally, the United States is putting forth an African economic policy based primarily not on need, but on political ideology and East-West considerations.

For example, while American economic aid to Africa increased just 40 percent since 1982, American arms sales and assistance jumped 150 percent to the world's hungriest continent. Moreover, this fiscal year five nations will get more than half of all United States economic aid to Africa (the Sudan, Kenya, Somalia, Liberia, and Zaire). These are old friends or strategically placed nations; need is not the primary consideration.

The United States has opposed 50 loans to Africa considered by the World Bank or smaller multinational development agencies--including six loans for Ethiopia that were proposed in 1984. The Administration has refused to increase contributions to the World Bank's International Development Association, and is cutting back donations to the International Fund for Agricultural Development, which during the last six years has spent $400 million to help poor African farmers.

Further, the United States is not renewing funding for the International Planned Parenthood Federation, and has frozen a planned grant to the United Nations Fund for Population Activities. These are shockingly myopic policy considerations given Africa's 3.2 percent population growth rate. If, in the years ahead, famine and mass starvation are not to be repeated in Africa, these policies will have to change.

What is the next step in Africa?

First, the United States and other donors, including the Africans, must quickly plan for the transition from emergency feeding operations into long-term development aid. The United States must join with the multinational donors to help create the minimum conditions for the recovery of Africa's land, agriculture, and people. Africa is too poor to go it alone.

Second, a consensus must be reached among the donors about the form of long-term assistance, and its impact on internal African policies and conditions. Africa's development needs are getting buried beneath budget cuts and narrow ideology. This not a useful way to deal with the change that all agree must come to Africa: in internal economic policies, incentives to agricultural producers, population growth rates, the environment and infrastructure.

Third, the United States should lift its vision and its hope for Africa. There is great emphasis now on short-term economic aid and military assistance, and not enough emphasis on long-term economic development for Africa's neediest nations. Does the world's hungriest continent need more military aid? I suggest that, north of the Zambezi River, the United States commit itself to a long-term economic aid policy based on "sustained engagement" with the struggling nations of sub-Saharan Africa.

Africa's problems cannot be solved by Africans alone, nor will they be solved in the short-term or by the imposition of one government's political ideology on another. Ignoring the lessons of the 1970s, shifting aid criteria away from need to friendship or security considerations, cutting funding for successful multilateral projects, placing military aid ahead of economic assistance, will only postpone Africa's recovery. It will also prolong Africa's emergency needs, and increase the long-term costs to the United States and other donor nations.

Unless long-term development issues are engaged by Africans and donors together now, Africa will continue its descent into political, social and economic nightmare.

Senator KASSEBAUM. Thank you, Mr. Shepherd.

It is a pleasure to welcome both Senator Sarbanes and Senator Pressler. Do either of you have any opening comments that you would like to make? Senator Pressler?

Senator PRESSLER. Thank you, Madam Chairman.

Just briefly, I appreciate very much the testimony. I have been very discouraged about the results of our aid efforts in Africa. We must be doing something wrong. Or maybe the amounts are too small, or misdirected. It really is a dismal picture in terms of results as far as I can see, and I have been trying to figure out why or what we can do to make the aid work.

I think in the next 10 years we are going to see a lot of agricultural production problems there and more Ethiopian-type situations. Of course, we cannot account for what governments do. I am not blaming the United States. I do not think it is our fault, but it seems like a very dismal picture in terms of results of our aid program.

And that is what I am listening for, to see if there is any way that we can do it better.

Senator KASSEBAUM. Do you have any questions you want to raise right now?

Senator PRESSLER. Yes, I have some questions, if you would like me to ask them.

Senator KASSEBAUM. Why do you not go ahead?

Senator PRESSLER. Thank you. I will.

I guess in line with the African Famine Relief and Recovery Act, the Foreign Relations Committee has concluded that official development assistance to Sub-Saharan Africa, which has exceeded $50 billion in the last 6 years, has been by and large ineffective, and consequently has called for new thinking about how to promote successful development in the African context.

I have heard some general things recommended here this morning, like we should have, rather than policy guidance, policy dialogs, and so forth, but maybe Africa is on a course of its own that we really cannot change. Maybe there is nothing we can do better. But what specifically would you recommend that we do differently?

Mr. BERG. To whom are you addressing that question, Senator?

Senator PRESSLER. To any volunteer.

Ms. LANCASTER. I am not sure I have the answer to that question, which everyone is asking, and it is a very important question.

Senator PRESSLER. Should we keep doing what we are doing?

Ms. LANCASTER. Well, I am not sure I have the answer to exactly what we are doing. I think we are moving very quietly away from an emphasis on basic human needs type aid in the seventies toward the policy reform question which we have mentioned.

Elliot has added, and I think rightly, the problems of policy in Africa are not just Government policies, but Government institutions as well, which obviously are very difficult to change, as any of us know who have worked in Government.

I think it is worth pointing out that while our aid has not developed Africa, nor has anyone else's aid developed Africa, the problems in Africa are not easy ones. Aid, while it can certainly stimulate development, is not going to make the difference if other factors are adverse, and those other factors include, of course, Government policies.

I think we have to look at some of the things that are really very difficult for Africans to deal with. They did not make the international economy of the last 10 years, which has been very unstable and adverse to African interests.

Many of them are dependent on one or two commodities, and these prices have gone up and down and then collapsed. Import prices have gone up. This is something not really of the Africans' making, and it has really contributed to the seriousness of their current problems.

The population problem is a serious one in Africa. It is the only part of the world where population growth is accelerating. I do not think that that is an easy one to deal with either.

If you are an African woman deciding on how many children you want, particularly if you are typically in the countryside, it makes a lot of sense to have more children, because those children add extra hands to the fields, and that is what you are really relying on to produce your food. It is a very much labor dependent agricultural economy.

So, the impact of the population problem can be seen on agricultural yields as fallow periods decrease because of pressure on land. I am not sure there are any easy answers and I am not sure that aid is going to make a major difference.

Conflicts have exacerbated problems in various parts of the continent, and of course there is not a lot of control over the weather. There was an interesting article in the most recent volume of Science magazine which looks at the Ethiopian drought. Someone had done some research on the rainfall patterns, and made a very strong case that this is by and large a rainfall problem. It has been a very unsual period of drought, not just in Ethiopia, but in other parts of Africa, that has occurred more or less since the seventies.

That is also something out of the country's control, so I think it is a little unfair to say that our aid has been without impact. I think it is too much to expect that our aid, however large it was, was going to develop Africa. What one would do differently is a more difficult question.

Senator **Pressler**. I recently had one of our ambassadors to an African country in my office, and he said that a lot of the colonial institutions and roads and so forth were just on the last leg of breaking down, and he was talking in general of the situation.

He said some of these countries had been food exporters during colonial times—I do not know if that is true or not—but that it just looked extremely dismal for the next 10 or 15 years, and there is probably not much we can do about it. He was in an off-the-record situation.

Would you share that view?

Mr. **Berg**. Let me have a crack at that question, Senator, if I may. There are just so many notes in this business, and we all are humming them, so I am not sure we can come up with any outstanding new ideas in this panel or elsewhere. Let me just say a few things that we might think about.

First of all, the idea that money can solve Africa's long-run development problems is more suspect than ever. We are now dealing not with capital infusions in an environment in which growth will occur if you just make resources available. We are dealing with stunted institutions which need to change.

Many Africans want to change those institutions at a rate that is socially or politically acceptable for them, and the international community is trying to help them. But money is this two-edged instrument: it helps reform, and it can hinder it.

So that is one thing. It seems to me useful to remember that if outside help has its uses, it also has its risks.

Second, modesty in policy reform is called for, and a stress on dialogue. I agree with much of what Ms. Lancaster and Mr. Shepherd said on this score. It may seem trivial to some, but there is a difference between conditioned or apparently conditional lending and policy dialog.

We should be interested in dialog, in changing ideas, and less interested, as a bilateral donor in conditional lending. We should also have more modest expectations about what we can get from the conditions we attach to our economic lending. The primary purpose of those loans and grants should be to widen and deepen the policy dialog.

Related to this is the special problem of the IMF in Africa. The IMF in my view is the international institution which is most capable of putting politically acceptable conditions on the economic behavior of the governments in question. The World Bank is also deeply involved in policy reform efforts in Africa, and in institutional reform as well. But the World Bank—and even more so, bilateral donors—are a little further from the central levers of policy—exchange rates and credit policies for example—and if they move closer, they become politically intrusive right away, whereas the Fund has an accepted place and its macroeconomic measures go to the heart of microeconomic problems.

Let me give you an example. In western Mali, there is a parastatal that markets peanuts and has done so for decades. Peanuts were in the recent past a major Malian export.

In 1981, the Government had to restrict its credit to the public
of an agreement with the IMF, but Mali's

leaders also would cut back on credit because rates of inflation were threatening to become too high, and sound policy required it.

The Government of Mali, or its central bank, was then forced to consider which agencies were going to get the available credit. They decided to cut the peanut marketing agency's credit allocation.

This was enough, on top of long-standing problems, to put that parastatal out of business. There were no pressures by the World Bank, no urgings from USAID, little direct pressure from the IMF. The IMF Stand-By Agreement included an overall credit ceiling, but it left to the Government of Mali, as Fund agreements generally do, the decision as to where the necessary squeeze would hit.

At the same time, there is a grain marketing liberalization project in Mali. The major aid to that country agreed to provide 250,000 tons of cereals over a 5-year period, during which time prices would be raised and marketing made more competitive. There has been gradual change in the grain marketing area toward liberalization, but it has been very slow, and a new 5-year program is now being considered.

So, on the one hand you had overnight change, resulting from the application of no specific conditionality but rather the imposition of effective credit ceiling, with the local government free to decide what to do.

On the other hand, the grain marketing liberalization project represents a more conventional direct approach to structural change. We say in 5 years you will raise prices by X and you will withdraw gradually from the grain marketing business, and so on.

I am not sure which is the better way to proceed. There is a social cost to speedy institutional transformation. The main point is that the IMF has tools at its disposal which are critical at this juncture in African economic history. Not only that, the IMF role is now being threatened by the heavy repurchase requirements of the African governments.

As you know, the IMF turned out to be in the period 1980-82 a major lender to Africa. In fact, in that period, the Fund lent an amount equal to a quarter of total ODA to the continent, a record-breaking proportion.

But now those loans have to be paid back, and repayments in the next 3- or 4-year period, will be very high. Net flows from the Fund will therefore be much reduced.

Carol Lancaster referred to this issue. There is some danger that the Fund will have to go very slow in its policies in Africa, simply to assure repayments. It may have to refrain from maintaining reasonable conditionality. But it is this type of conditionality which is most necessary at this juncture.

Finally, and this is not really high wisdom, we ought to stick to what we know how to do. In framing African progress, we ought to take account of the fact that we do not know much about a lot of things we are now trying to do.

We do know how to run some kinds of projects—how to build roads and schools, for example—and we ought to do more of those things. They have fallen out of fashion in the great wave of thinking about policy reform. We also might recognize that U.S. institutions may be able to play a wider role.

If it is difficult at this point in history to create in Africa, say, agricultural research institutions that work on the frontiers of knowledge say, in genetic engineering, we ought to do more work on African problems in U.S. research facilities. There is no reason why we could not mobilize some of our energies in that direction, recognizing that in the allocation of the world's research energies, poorer, voiceless regions lose out.

There is no reason why we could not mobilize private institutions—corporations, for example—for special training efforts and for other African purposes. Thinking along those lines is going on, and might result in new insights about how to deal more effectively with the problem of this part of the world.

Senator **Pressler**. I see that my time is up. I have the red light. So I will wait until the next round.

Senator **Kassebaum**. Why do you not finish up if you have another question?

Senator **Pressler**. Thank you.

Looking at the economic support fund levels, I guess our aid or assistance is spread around the world so thinly after you get away from the Middle East, very frankly, some of these sums, I suppose, would be considered paltry.

But would we be better off concentrating in some countries rather than spreading out what are fairly small amounts? It just seems that what we are doing does not yield any result in my judgment.

Would we be better off picking a few countries in Africa and getting an agreement that they would develop agriculture or develop institutions, and making them a showcase, and concentrating or targeting this aid a little bit rather than trying to spread it out among so many countries? Would that be a new approach?

Ms. **Lancaster**. Maybe I should take a crack at that, because I have been on both sides of that issue in my Government career. I will tell you what I think is behind the fairly wide distribution of often small amounts of funds to relatively small and for us in the United States unimportant countries in Africa.

We do not have very strong traditional interests with these countries. We do not have very much trade. We do not have very much investment. We do not have historical ties.

Our ambassadors out there like to be able to have the kinds of access that other ambassadors have, or something approaching it, and it is often seen that an aid program, even a very modest one, will provide the kind of access to government that these ambassadors want.

I can tell you that if you look threateningly at some of these programs, you can really galvanize our ambassadors into great efforts and action. I do not think this is necessarily an illegitimate use of aid. It is political use of aid, and we have to recognize it.

If we decide that this is not a useful way to spend our money, then it seems to me it raises one very basic question, and that is, perhaps our interest in some of these countries is not great enough to have a diplomatic presence if the diplomatic presence we have is believed to require an aid program.

I would also like to expand on one or two points that Elliot has made. I think they are important ones.

Elliot has raised the problem of institutions in Africa and their role as an obstacle to development. There is a very difficult question here. What is the problem with institutions?

Is it a problem of lack of training of the individuals in these institutions? Is it a problem of politics, where resources are used so commonly for political patronage purposes or often for personal gain by politicians or others?

Or is it a question even of the very difficult position many Africans feel themselves in in public life, with pressures on them to act favorably, if you like, toward those who can make demands on them on the basis of traditional obligations or relationships.

We have some very difficult problems here that are not going to be easily solved with aid, and we have to be very patient in dealing with them.

The other point involves the IMF. The IMF is important in Africa, although the problems Elliot mentioned are real. The IMF is not actually seen to be engaging very much in policy advice or even in policy dialog sometimes.

A lot of Africans see the IMF as being a very strong negotiator with Africans, very tight with its conditions, and I think we have to be realistic that countries desperate for foreign exchange who go to the IMF have to swallow a lot of very unpleasant pills. Whether they are good or bad is another question.

If a government agrees to cut back on government credit, and the choice of how and where is left completely free, what can often happen is and what does happen is, a lot of governments retain people in employment, because employment is very important politically for them, but take away their tools.

So you have school houses without books, and you have medical facilities without medicine. There is another difficult dilemma here. How closely do you tie your lending to the policy advice you give? If you leave it completely open, which the IMF rarely does, I think you may come up with results you really did not want.

One is in very difficult waters here. Not that we should not wade in them a little bit, but we should realize it.

Mr. SHEPHERD. May I add something to that?

Senator KASSEBAUM. Yes, Mr. Shepherd.

Mr. SHEPHERD. I think there is a fourth point that one might want to make in terms of the policy consideration, and that is the impact of the policy on individual African countries.

When we are talking about changing internal pricing policies in African countries, or perhaps redefining or changing parastatals, particularly in the area of Kenya, and I think Elliot mentioned Mali, I do believe we need to take into consideration the impact of that policy suggestion or that policy direction on the individual African nation.

We need to raise the question of will this destabilize the Government of that nation, and is what what we want to do with the policy?

Senator KASSEBAUM. Thank you. Did you have something to add, Dr. Berg?

Mr. BERG. Just that I think that is a decision that most local political leaders are paid to make, and they do it a lot better than we do. I know of very few cases where outsiders are able to impose conditions which would have destabilizing effects without an awful lot of screening by local political people. It is their decision.

There are, after all, very few IMF riots in the world, although we hear a lot about those that occur. But when you think about the vast number of changes that are introduced under those auspices, it is astonishing there are not more.

Senator **Kassebaum**. Thank you.

Senator Sarbanes?

Senator **Sarbanes**. First of all, I want to thank the panel members for a very effective presentation. I would like to ask, first of all, whether you think the money going through multilateral institutions has worked better, or seems to have worked better, than the money going bilaterally to enable the African nations to come to grips with their problems on a long-term basis.

Ms. **Lancaster**. We have all made mistakes. The Bank recognizes some of its mistakes, and some of them it probably does not recognize. The Fund makes mistakes sometimes, too, believe it or not, and we as well.

I think, though, there is a general perception in the development community, and I think this is true in Africa, too, that the World Bank in particular is an effective, perhaps the most effective development institution or source of development concessional lending on the continent.

As I said earlier, it does not have the political constraints on it. It does not have to provide funding for countries like the Sudan, which have a very hard time fulfilling agreements involving economic policy change or anything else.

It does not have to provide funds or continue to provide funds in the face of policy failures, whereas we might be a little more hesitant to change our aid levels to reduce or eliminate our aid to a country like that. The international institutions are a little more free to act in support of development than a bilateral donor is. I think this is an advantage.

Of course, they are full of well-qualified people.

Senator **Sarbanes**. I do not want to let that last point just slip into the record, because as I read your statement, you say that at the bilateral level we lack the expertise to provide wise advice. I take it that there is a sharp contrast between our capacity at a bilateral level and the capacity of the multilateral institutions, where the degree of competent expertise is concerned?

Ms. **Lancaster**. I think there is a difference. Take the World Bank, for example. They have economists working in every country, usually well informed individuals as well as loan officers and so on.

They suffer from a somewhat different problem than ours, though, and this is true of the Fund, too, in that they have most of their professionals in Washington who go out to the field for short trips and come back.

I think it is very difficult again to give policy advice to governments if you do not have a good feel for the political and social context in which that advice is going to be followed.

This is where the Bank and Fund have shortcomings. They have resident representatives in the field, but these individuals have not

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played critical roles in their decisions, so they are not without problems as well, in my view.

Mr. **Berg**. May I comment on that, Senator Sarbanes? I would create four pigeonholes. I think the Bank generally does a little better than AID because it is so rich in skilled people and project experience, but there are common patterns in both agencies.

The Bank and AID both know how to build physical infrastructure. That was what the World Bank mostly did until 1970, and as AID did, so on that side, on brick and mortar type projects, both institutions do pretty well.

On agriculture, the picture is much more varied. The Bank and AID both did well in, say, South Asia with irrigated agriculture, and the Bank and AID both did well with agricultural education in India. Those are the great success stories of the 1960's.

But when it came to dry land farming, neither institution has done well. Since the early 1970's, when agriculture, mainly of the dry land type in Africa, began to take a growing share of the Bank's resources and a substantial amount of AID's resources, both essentially have been failures.

So, in that area the success record for both institutions has been poor.

Finally, on the policy side, it's too soon to say much. The Bank has been doing impressive, innovative work, for example, in its policy-based lending program. But despite its relative abundance of economists, the Bank has found that the elaboration of policy reform programs extremely demanding in manpower and in knowledge. Their policy-based lending program is moreover not only new, but under constant review. So there's not much of a track record yet. We really are engaged in a new enterprise on the policy reform side.

Senator **Sarbanes**. What success stories, if any, would you point to? If you were to look out there and say that although it is a pretty bleak landscape there have been a few instances in which things are working well, and we can explain why these particular cases have been successful, what would they be?

Mr. **Berg**. I will just give a few quick examples of some. I think one is Uganda, where after a terrible turmoil in the post-Amin period there has been a real turnaround. It is partly due to much better economic policies. Outside money and ideas have helped. One particular aspect of their success has been in the near removal of exchange rate distortions.

Smuggling seems to be on the way out. The rate of inflation has been coming down dramatically. So, that country is now beginning to look like it is on the right track.

In Zaire, surprisingly to some people, there has been what looks like a real turnaround in terms of agricultural production. There has been a liberalization of agricultural markets, of removal in that country especially of repressive state organizations from the rural areas, and there seems to have been a quick response by many farmers.

It is very little known. I don't think many observers have looked at it yet.

There are important things happening also in Somalia, where a government grain marketing monopoly throughout the 1970's prevented farmers from selling grain at decent prices. In the last 5 years, that monopoly has withdrawn from the market. There is now open and competitive marketing, and in the early 1980's market prices soared, followed by very substantial increases in acreage in maize and sorghum, the basic staples, as well as in other crops.

There are all over the continent examples of countries that are beginning to come to grips with their policy problems and with their institutional blockages—dealing for example with their inherited set of state enterprises, many of which were hastily put together and are uneconomic.

So, there are some signs of real turnaround, and of better economic performance.

Senator SARBANES. Would the other members of the panel like to comment on that?

Mr. SHEPHERD. I would add, and correct me if I am wrong about this, but I think Zimbabwe has also shown a great deal of turnaround in the last year, and Malawi for other reasons.

I think Kenya is going to be a very interesting area to watch because of the changes that might take place with the parastatals in that country, and also the possible opening up of free market maize production in that country.

I, of course, would watch Ethiopia with a great deal of interest and curiosity to see what might happen there, but the jury is still out on that.

Ms. LANCASTER. Another place to watch might be Ghana. I think there is no country in Africa which did its economy so much damage as Ghana over the period of independence from approximately 1957 to several years ago.

A regime with a fair amount of radical rhetoric came in under Jerry Rawlings, and facing an extraordinarily bad economic situation has really imposed some very severe austerity programs, and has tried to turn the economy around.

I gather that things are beginning to pick up a little bit. Exports are beginning to rise again, and so on.

A country which has had a pretty good track record right on through has been Cameroon. That is one of the best kept secrets on the continent in some ways. It is a well diversified economy. It did not go on the spending binge that Nigeria did with oil revenues, and has managed to stay pretty healthy.

Malawi, of course, is often pointed to as a country which has done well in encouraging agricultural production, but of course it, too, got into economic trouble in the last couple of years when tobacco prices went down, and has a lot of problems with transport. So, it is not all bleak.

Senator SARBANES. The administration request for military grant assistance has risen from 1984 to the 1986 request by almost 60 percent, and the number of countries has jumped by 50 percent, from 11 to 16.

Are we creating a situation where every country feels that it has to be a military grant recipient, just to be with it in the latter part of the 20th century?

How much of that attitude is being built up, so that every regime, and the military component of every regime, says, "Other countries are getting grant aid, and therefore we have to get it, too"—whether they have a valid reason for it from a security standpoint or not.

It becomes a matter of status—a matter of, this is one of the things that everyone else is doing, so you have to do it as well. To what extent is that factor working as you perceive it?

Ms. **Lancaster**. I am not privy to the pressures on the administration for military assistance. Perhaps that is a question that they can better respond to. I will say that several years ago I looked at the increase in military transfers to Africa over the period of roughly 1970 to 1980.

It was the fastest rate of increase for any region in the world, and that does not include North Africa. That does not mean that the Africans were getting larger amounts of military transfers, but they were increasing their military transfers very rapidly.

There is a lot of pressure on the continent to modernize armies. There are pressures for the very things you mentioned, in a sense the showcase sorts of things. I do not know how much of the pressures are also derived from security concerns—certainly in the Horn there is that—and how much are derived from internal concerns.

It is a troubling aspect of resource allocation in Africa, even though most of our military assistance is grant Military Assistance Program. Grant MAP brings with it costs as well. Once you have a piece of equipment, you have to import spare parts to keep it going.

You have to allocate trained personnel to operate it. And so even the free goods are not entirely free. I think these are important questions to pursue with the administration.

Senator **Sarbanes**. Many of the African countries, of course, have a past relationship with one or another of the highly developed countries. In many instances that relationship has continued subsequent to independence.

Should the developed countries in a sense divide up responsibility to some extent paralleling that pattern—a good deal of that takes place in any event—and in effect, as it were, split or share the burden? That is the first part of the question.

The second part is, to what extent does this involvement of the United States, that is everywhere in small amounts, as Senator Pressler noted earlier in his questioning, create unrealistic expectations?

In other words, because of our involvement, a recipient country and its people have expectations about what is going to be achieved and the timeframe within which it is going to be achieved that are probably unrealistic, no matter what the degree of aid we would be providing. And in any event the expectations are clearly unrealistic given the amount of aid that is sensible to assume is forthcoming.

Mr. **Berg**. I would make just a brief response, Senator. On the burden sharing, as you say, it really has already happened. It is only in the last 5 years, maybe 10, but especially in the last 5, with the financial crisis in so many of these places, that the U.S. presence has become more widespread.

For example, in all the French-speaking parts of the continent, the French have had a predominant position politically and economically, and have provided most of the support. In the last 5 years, as things have become unraveled the world community as a whole has been more deeply involved in those regions, and we have also come in to help.

In many of the East and coastal African countries, the British play a similar role. So burden sharing occurs along those lines in part for historical and cultural reasons.

But as you know, we also have overlapping interests. In one Sahel region, for example, Libyan pressures have become more important at the same time that local financial problems have become more urgent. Both factors have spurred our interest in those places, so we have become more involved.

On the second question, my own view is that most African countries are already very experienced in dealing with donors, with the outside world. I think they have extremely realistic expectations and understandings of how the game is played and what can be expected from it.

So, I would not think that a U.S. presence in Burkina Faso, leads to any unusual expectation in that country that there will be continuing large flows of assistance, or that it will transform that economy. I think they are very realistic about those things.

Ms. **Lancaster**. I remember several years ago when I was in the State Department and had to scrounge up some money for Zimbabwe when it became independent, it took a lot of effort to find money that was not really in the budget.

We found $15 million, and I remember going out to Zimbabwe, and one of the Zimbabweans said to me, $15 million, from a rich country like you, that is peanuts, and I remember saying, it is peanuts to you, but it is a lot of money to us.

They knew very well what the game was. It was a way of putting pressure on us for a little more money. So, I think Elliot is right. What is difficult to tell sometimes with all of the rhetoric surrounding our aid programs is how important this aid is to U.S. relations with an individual country.

It may very well be in some cases, but it is very difficult to say exactly how important, but I do not think we are creating unrealistic expectations. I agree with Elliot on that. I do not think the expectations are very great right now on the continent for a lot of things.

Senator **Sarbanes**. Thank you.

Senator **Kassebaum**. Thank you, Senator Sarbanes.

I think that some very interesting questions have been raised. I am so impressed with the issues that you have raised and the questions that you have asked in exchange that have been enormously helpful to us. I would like to follow up on a couple of questions briefly.

I thought, Dr. Lancaster, it was interesting when you said there was a need on the other side of the coin to have resources available in order to meet the requirements that have come through, say, IMF loans, and Zambia was mentioned, where there has continued to be a decline, although conditions have improved, and they have made great efforts to try to meet those conditions.

In just following through, what kind of efforts would you see that might be useful in order to obtain more resources? It would seem to me that this is something that is happening with many countries as their exports are declining and world commodity prices have declined. Where does that leave them?

Ms. LANCASTER. I do not know. I cannot give numbers on individual countries.

Senator KASSEBAUM. Let us take Zambia, for instance. What would you think would be a useful policy, a word that has become a bit overworked, I suppose, in this testimony so far, toward Zambia, in helping them achieve a greater resource pool?

Ms. LANCASTER. Well, if the reports I read and the stories I hear are true, the Zambians have undertaken some serious and much needed reforms. They also have some pretty heavy debts to private and public creditors, including the IMF. I would think that one of the things we would want to do if we had the resources would be to help them ease the constraints on their imports deriving from a lack of foreign exchange.

Now, Elliot is right. If you come into a country with a whole lot of money, a country that has undertaken difficult policy reforms because it really had no choice, you can relieve the pressures on that country.

The key, it seems to me, is finding what level of support would be necessary to help a country really begin to recover and grow, to begin to be able to import the goods that are necessary to maintain the roads, to begin to import the goods that have been scarce in the pharmacies or some of the investment goods that are necessary to permit adaptive agricultural research in these countries, and so on.

One needs to look for the right level of resources that will not become a disincentive, that will not encourage countries to kick over the traces, but a level of resources that will allow them to grow. From everything I hear, the Zambians do not have that right now.

They of course have the added problem that their major resource, copper, is going to be running out in 15 years, and they have to find another source of national income. That something else is probably going to be agriculturally based.

They have a major challenge, an interesting one to watch. That challenge is going to have to be met by resources as well as efficient policies. I do not know what the right level is. But my sense is, we are not at that level right now.

Senator KASSEBAUM. One of the policy efforts last year was the economic policy initiative in order to create greater assistance to those countries going to the private sector and making reforms that are important. This year in the budget and, I think, last year there was a request for $75 million. Not a request, the Appropriations Committee added $75 million.

This year, there has been some change. I do not know whether you have had a chance to look at it or whether you are aware of it, but the proposal states that the program will have two objectives, and it is to provide additional support for those countries that are implementing policy changes or indicating a willingness to establish growth-oriented policy framework and to streamline international assistance by improving multilateral and bilateral donor coordination.

This is sort of a broad outline. I would be interested in hearing the administration witnesses maybe fill it in as far as how they are going to implement it. Do you have any comments to make on that?

Mr. BERG. I do not know enough about what has happened to that program, Senator, really to talk about it.

Senator KASSEBAUM. One thing that they do mention that I had believed was very important, and you spoke to it, Dr. Berg, when you said lack of continuity in some of the research efforts on and off through the years, is just how much we could gain, if possible, from better coordination of all the donors active in any one country as we try to formulate not only continuity but where our emphasis should be placed, who can best do it, and what coordination should be organized.

We have talked a great deal about it. At the height of the Ethiopian crisis, we were going to have a donor conference. I do not know if coordination is always possible. What are your thoughts?

Mr. BERG. It would be extremely churlish to be against coordination in general. One would really have to be unusually disagreeable. In fact, there is a need to somehow get all of the troops together, and there are plenty of them out in most of these countries, as everybody who has been there has observed.

But I myself have a certain skepticism about that exercise. On the one hand, coordination at the high diplomatic level is not all that useful. It may present a chance for donors to understand a little better what others are doing, if they did not know, and the country in question can perhaps get some messages across more easily than it would otherwise do.

But the real dialog has to take place at the technical and local political level, and much more intensively, so one wonders about the efficacy of many or more large-scale consultative group meetings.

But more than that, coordination is OK so long as you stay at a high level of abstraction, but when you get down to the guts of things, you often get into disagreements with other donors.

For example, U.S. economists or AID people generally do not believe that subsidies to farmers for fertilizers or other imputs are a good idea. There are good, theoretically acceptable justifications for subsidies on farm imputs, and so even U.S. economists differ on this point.

But by and large most U.S. technicians who deal with this problem think that fertilizer subsidies distort these imput supply systems so badly that they are counterproductive. However, this view is not shared by many of our friends. Most French technicians, for example, and most Scandinavians, are generally favorable to the provisions of subsidies.

The technical arguments are balanced. You can find reasons to give subsidies on a technical level. It becomes a matter of judgment.

Now, coordination on that vital level is often difficult. I am not even sure it would necessarily be a good idea in all cases. If our technicians think that getting rid of subsidies would make for quicker, fairer growth, we ought to aim at their elimination. If we have to compromise too much in order to get other donors to go along with us, it might be a bad idea.

Senator KASSEBAUM. Well, since we are arguing the question of subsidies right here on our own agricultural policy, I do not know what to say.

Mr. BERG. I had hesitated to raise that point. [Laughter.]

Mr. SHEPHERD. I would like to add to Elliot's comment and say that it has been my impression when I was in Africa, when I spent some time there, that the coordination takes place to a large extent on the ground anyway, and perhaps the superimposing of coordination at a higher level might diminish that, as you pointed out.

Ms. LANCASTER. May I just say, though, that we want to get rid of subsidies outside of this country. [Laughter.]

So we go ahead and we dialog or we advise or we strongarm, we do whatever we do. We get Mauritania to get rid of subsidies, its fertilizer subsidies, but food prices still remain low. Other donors are doing something else. Farmers all of a sudden cannot afford fertilizer. And so they do not apply it, and so agricultural production falls.

It seems to me we are dealing with a whole set of interrelated things here, and while we do not want to be churlish or against coordination, or be churlish and be too much in favor of it, I think without some effort to look at the whole picture and look at what other donors are doing, too, we could give some very poor advice.

Senator KASSEBAUM. It seems to me you have a question of the right hand and left hand operating in different ways. We might take it away. Someone else might add it on.

Then indeed if it is a policy question that we feel is important, should we direct, if we do not think subsidies for, say, fertilizer are important, direct it in another way to help at least resolve the fundamental problem of no resources available really from a healthy agricultural economy?

It does seem to me not at the upper level, because I think sometimes it is not that knowledgeable as far as really what is going on in the field. But there in country it just makes sense to me somehow that you have a coordination. Otherwise you can diminish your own efforts if they are counterbalanced by some others.

That is, I guess, what has concerned me. It may not be practical or it may not be possible. It seems to me, though, it might be practical.

Thank you very much. I certainly appreciate the testimony.

Senator SARBANES. It was a very good panel. We appreciate your testimony very much.

Senator KASSEBAUM. Thank you.

[Pause.]

It is a pleasure to welcome the next panel, which will consist of the Honorable Mark Edelman, Assistant Administrator of the U.S. Agency for International Development, and Dr. Princeton Lyman, Deputy Assistant Secretary for African Affairs of the Department of State.

Thank you very much. I do not know if you found the reverse procedure of interest or not, but it may give you a chance to answer some of the questions that were raised by the first panel.

Who would like to go first? Mr. Edelman?

STATEMENT OF HON. MARK L. EDELMAN, ASSISTANT ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Edelman. Thank you, Madam Chairman. By and large I did agree with most of the comments that were made previously, and possibly, in our dialog today we can get into some of those.

In my oral presentation, Senator, I would like to stress some concerns which have been briefly touched on by the panelists which one not in my prepared testimony, and which come about based on my roughly 1 year in my current position.

There are two things which I think help to explain why some things have not worked well in Africa.

The first concern that I have is one of management. When I speak here of management, I am not speaking of detailed financial recordkeeping so much as I am of the broader sense of management, which I think you will understand in a moment.

Before I get into this concern, I would like to say when I am saying "we" here, it is not just we, the United States. I think it is "we," all of the donors and the African countries. So "we" is a broad we.

I do not think that we have paid enough attention to management. I think we have too often stressed quantity over quality. I think we have all been pushed into doing too much to show how concerned we are.

We have been pushed because the needs in Africa are in fact so great, and I think we have been pushed because we have been asked to do so much by the various African countries. We have not paid enough attention to the local realities in our projects; there are a couple of examples of that.

Just yesterday, my staff was telling me about a wonderful new sorghum that was developed several years ago which produced a lot more grain than the previous kind. When they actually got out to using this sorghum, they found out nobody wanted to use it even though it increased their production.

The reason is, it has a short stalk instead of a high stalk, and the high stalk was used for things like thatched roofs. No one had paid attention to that, and they developed this wonderful seed that did not consider the local realities.

Another example that came in a cable from one country in Africa, from a fellow who is now with our Embassy there. He is now an economic counselor, but he was a Peace Corps volunteer in this country 10 years ago.

Ten years ago as a Peace Corps volunteer he helped some people in a rural district raise chickens and improve their chicken farming. He went back 10 years later, now as a member of the U.S. embassy, to see what happened to his project, and he found several of the people he knew were still there.

Unfortunately, there was not much left of the chicken project that he helped set up. I would like to quote from him just two reasons, talking to just two different people there about why the project had collapsed. In the one case he attributes it to superstition and quotes one tribal resident as saying, "Four members of my family died within a short period. Clan elders said my prospering chicken project angered the ancestors and caused the deaths.

Rather than risk ostracization or worse, I killed my chickens for the funeral feast, abandoned my farm, and moved back into the village. After all, what else could I do?"

Another one cited a problem of jealousy. "My neighbors were jealous of my chickens, so at night they would steal them. One time they threw a diseased chicken in with mine, killing off the few that I had left."

Those are the kinds of realities I think we have not paid sufficient attention to and why some of our projects have failed. I think we have also not paid sufficient attention to the local capabilities, the local infrastructures, and the local institutions. Dr. Berg especially stressed some of the institutional problems in Africa, and I think we have failed to recognize some of those problems.

I also believe that we have designed overly ambitious projects with objectives that could not be met almost from the beginning and which caused a great deal of wasted effort. As a result of all of this, I think frankly there are too many projects in Africa.

In Kenya, for example, there are over 600 projects from over 30 donors. No country can possibly manage that many different projects. Each one of those projects has its own regulations, its own set of accounting standards that have to be met.

Every project comes with each donor's prescribed rules and different systems. All of those projects have recurring cost problems. When the project ends, the local government has to pick up those costs.

When I was in one of these countries, I was talking to the permanent secretary of the finance ministry at lunch one day. The conversation went about as follows. I was telling the permanent secretary that he and I had something in common.

I was at one time the State budget director for Missouri. What he faces now is what I faced then. In my case, in would come the Federal Government with all kinds of wonderful categorical grants.

Each one had strings on it, rules and regulations on it, and I knew perfectly well that after 2 or 3 years the Federal Government would stop funding whatever it was, and I would have to pick up the costs out of my general tax revenues instead of having it come out of my Federal funds.

Now, at the same time I could not very well, being a political creature, explain to the Missouri citizens and sometimes even to the Missouri legislature why I did not accept this freebie or what was an apparent freebie. It did not seem to cost the State anything, at least at that time.

The permanent secretary broke into a very broad smile at this story and said, "You know, every time I go into a donors' meeting, I say a little prayer, Lord: save me from temptation." And he said he has never been saved yet. [Laughter.]

That same kind of problem affects most of these countries. Part of this can be addressed by better donor coordination. You alluded to it, Senator, at the end of your comments. And there are some efforts being made in that regard.

The World Bank is taking a stronger lead in consultative groups, and new procedures that we have been discussing with the UNDP improve the roundtable process also. It also means that recipient countries are going to have to be setting better priorities and really face up to the fact that they have to set priorities.

The budget that is now before you reflects some of these concerns in that I have cut back the number of new project starts in fiscal year 1986. For example, in 1984, the budget included 62 new projects. In 1985 there are 79 new projects. But, but in 1986 there are only 28 new projects in the budget.

I have consciously cut these back in order to emphasize quality over quantity, to give our staff both in Washington and the field more time to spend on project implementation, and to worry more about project implementation rather than the traditional primary concern of project design.

It means that a lot of mindsets are going to have to be changed in the agency, but I am determined to try to keep plugging away at that problem.

The second item I would like to mention that is not often recognized is that development is a very long-term process. We have been at development in Africa for a very short period of time indeed.

In 1974, we had bilateral programs in only 12 African countries. Today we are in 38 countries with some other type of project in virtually every country of Africa.

Now, this is only a 10-year period where we have increased programs and really gotten to development in Africa. Compare that to Latin America, where we have been in development work at least since Nelson Rockefeller was head of Latin American aid development for President Roosevelt. In Asia we have been doing development work there at least since the early fifties. In Africa, we have really only been doing it for about 10 years.

The problems in Africa also are much worse than they are in Latin America, and certainly much worse than they are in Asia. In Asia, for example, India is really a two-crop country, rice and wheat, wheat in the punjab. In any particular farm in certain parts of Africa you can find as many as 18 different crops growing. The African climate is also much more variable. The soils are much weaker. The infrastructure is much worse.

You have the problem of a lack of nationhood in most countries. There are very few African countries that you can call a nation in the sense of having a unity about them, and that detracts from a national government committing itself to a national effort such as happened in India in the fifties.

Also, it takes at least 10 years for any research project to really bear fruit, to develop a hybrid. It can take from 10 to 15 years to develop a hybrid that has finally stabilized. It can take another 5 to 10 years to get it widely distributed and used throughout whatever region you want.

So, that is at least 15 years from the time you start research until you get a hybrid seed. We have only been doing this work about 10 years in Africa.

Development is not a science, as we all know. It is trial and error. We have made a lot of mistakes in the past. We also have had some successes. I am glad Dr. Berg mentioned a few of the positive signs.

I do not think the outlook for Africa is necessarily as bleak as the early discussion this morning led you to believe. Besides the policy changes, there are improvements in life expectancy in Africa. There have been sharp improvements in education levels in Africa, and there are some very dramatic potential breakthroughs in agricultural production in Africa that I can discuss at a later point if you want.

We are going to continue to make mistakes. I would not tell you that we are not. We are going to continue to have some failures. It is the nature of the beast that we are in. What we hope we can do is learn from the mistakes and not keep repeating them.

And if we learn from those mistakes, and move in the direction that I think is now generally agreed upon, I think we can all help to improve the lot in Africa with the cooperation of the donors and of the African countries.

Thank you.

[Mr. Edelman's prepared statement follows:]

PREPARED STATEMENT OF HON. MARK L. EDELMAN

I am pleased to be here today to present to this Committee A.I.D.'s proposed program for Africa for fiscal year 1986. Although this is my first opportunity to discuss the A.I.D. program with you, I am well aware of and do appreciate the support your Committee has given to the foreign assistance program for Africa. I will turn to the fiscal year 1986 request in a moment, but I want to begin with a few general comments.

This is a time of intense agony for the people of Africa. The famine dramatically reveals the struggle for survival that grips so many millions today and underscores the urgency of helping African nations overcome the growing development crisis they face. Most of them, despite commendable progress in the two decades of independence, remain extremely vulnerable to forces which they can rarely control. The famine shows how fragile human life is, and the instability of the international economic climate exposes the limited capacity of most African governments to overcome their problems.

As we all know, there are no easy answers, and there are no quick fixes which are going to reverse the current state of affairs in Africa. The need continues for a long-term, determined commitment to find the most effective way to increase productivity and to improve the conditions of daily life. If we can achieve some technological break-throughs in agriculture, there might be some dramatic progress relatively quickly. But more than likely we will continue to experience uneven development over a long period of time. On the hopeful side is the fact that even before the drought, and now perhaps because of it, we have begun to see a new phase in the development effort on the continent. The declining agricultural productivity and the growing economic crisis have led many African leaders to re-examine the direction of development. They are taking the initiative to find more effective means to stimulate growth. Over half of the countries have begun a process of policy reform and structural change. As this renewed effort develops, we and other donors are prepared to sustain this process. Therefore despite the current depressing situation on the continent, there is an opportunity for rebuilding the momentum for growth.

I. FY 1986 Request

The FY 1986 request reflects the growing Administration response to Africa's needs. Currently, the U.S. is the largest food aid donor, and the second largest bilateral donor to sub-Saharan Africa. In FY 1985, and again in FY 1986, our planned assistance levels for economic assistance and regular food aid programs exceed one billion dollars. In fact, in FY 1986 Africa does not share in the overall Agency reduction in Development Assistance.

Specifically in FY 1986, we propose:

$358 million for Development Assistance including the Sahel Program;

$462 million for Economic Support Funds including $75 million specifically for economic policy reform programs; and

$225 million for P.L. 480 programs plus another $34 million for the World Food Program in Africa.

II. Where Do We Go From Here?

In response to the deepening crisis in Africa, A.I.D. is focussing assistance on (1) supporting economic stabilization and reform, (2) improving agricultural productivity, and (3) strengthening the human resource base. And underlying these is our strong view that policy reform is fundamental to progress in any efforts we undertake.

The declining per capita agricultural production, the continued dependence upon a few major commodities for exports, the increased need for oil and food imports, and the rigidity of state controlled economies have led to a staggering financial crisis in many African countries. The debt service burden is projected to reach eight billion dollars in 1986, which would make it four-times greater than in 1982. Between 1980 and 1984, the U.S. has participated in 29 debt reschedulings for 13 African countries. While the severity of the crisis varies among African nations, most of them face a deteriorating situation unless substantial policy and structural reform efforts are undertaken. Increasingly, through our programs for economic policy reform, commodity and sector support activities, and P.L. 480 Title I programs, we are prepared to support bold and imaginative economic reform initiatives by African leaders to help them reverse the downward spiral.

While we place increasing emphasis on confronting the macro-ecomomic problems, we also continue to concentrate on the agricultural sector and subsistence farmers. The fundamental importance of the role of agriculture in Africa is well known. Agriculture employs 70 percent of the population and accounts for nearly two-thirds of GDP. Since this sector of the economy so pervasively affects Africa, we must continue to place the greatest emphasis in our long-term development program on agriculture. More than half of our development assistance funds are allocated to this sector as has been the case for several years.

Along with this concentration on economic policy and smallholder agriculture, we will also continue to support basic education and skills training programs and efforts to expand rural health services including voluntary family planning programs. Let me now discuss our proposed program for FY 1986 in more detail.

A. Policy Reform

As I mentioned a moment ago one of the most encouraging signs today is the willingness of African governments to re-examine their economic policies. They are beginning to realize that their centrally-managed economies are not producing the growth they desperately need to provide the income, food, education and health services which can make daily life more decent. The disincentives of current policies in so many African countries are now a focus of concern by Africans and donors alike. Questions of pricing, quality of management, exchange rates and structure of marketing and distribution services are getting increased attention.

As a result, discussion is turning into action. A number of governments have begun a process of reforming parastatals, substantially increasing producer prices, liberalizing trade or foreign exchange policies, and reducing agricultural import subsidies. A.I.D. and other donors welcome this fresh perspective among African governments, and increasingly we have made policy dialogue ~~the~~ cornerstone of our programs.

In FY 1985, in response to the Administration's request for funds for a special policy initiative, the Congress provided $75 million in Economic Support Funds. We are requesting another $75 million in FY 1986 to continue this specific effort. We are undertaking this program in concert with other donors and with the World Bank.

The mere establishment of funds for a special effort in policy reform has already been productive. It has captured attention among most African governments and throughout the donor community. It has helped quicken the pace of policy dialogue. However, we will also use other resources -- DA, other ESF resources, P.L. 480 Title I -- in support of policy reform. And we will soon propose a new "Food for Progress" program to advance our efforts. If governments are going to take some reform actions, the need for resources will be substantial. In Niger, for example, we began in FY 1984 a four-year, $32 million agricultural sector grant designed to reorient agricultural import subsidy policies, promote increased border trade in livestock and other products, and encourage private trade in agricultural marketing. In other countries, Sudan, Somalia, and Zambia for example, we are using commodity import programs, as well as P.L. 480 resources, to support policy reform measures. We are also encouraging a greater private sector role in development. Progress will not be easy. Tough decisions must be made. But there is no practical alternative to renewing Africa's productive capacity.

B. Agriculture, Rural Development and Nutrition

In FY 1986 A.I.D.'s request for the Agriculture, Rural Development and Nutrition account includes $155.3 million for Africa. This amount represents 55 percent of the Development Assistance request for Africa. This is in addition to the Sahel Account which is even more heavily focused on agriculture. These funds are directed toward the long-term requirements for economic development and the needs of the small farmer. A substantial portion of our programs are for the development of institutions involved in planning, research, extension, and training so that farming technologies and resources can be more effectively used by farmers.

African agriculture has been less affected by technological change during the past twenty years than agriculture on any other continent. In this situation, agricultural research has become critical. Unless and until we can develop more technical knowledge of what works and what can be applied by the average small farmer in Africa, the lives of most Africans are not likely to change for the better. Broad-based research efforts are underway on regional and national levels. A.I.D is supporting intensive research programs in 25 countries.

New technologies can be developed. In Sudan, A.I.D.-supported institutions have developed the first commercial sorghum hybrid. This variety increases yields by at least 50 percent, and there appears to be private sector interest in commercial production of the seeds. If at least 25 percent of the total seven to eight million acres of sorghum grown each year in Sudan could be planted in this hybrid, it would double total sorghum production and easily resolve any food deficit in Sudan. Promising research results are also in sight for maize, cowpeas and tubers among other crops.

The limited institutional capacity in Africa reduces the effectiveness with which new technologies can be applied. Therefore in our technical assistance programs, A.I.D supports development and expansion of extension services. We are also encouraging an expanded private sector role in marketing and distribution. In Cameroon, A.I.D. focuses on developing an agricultural education, research and extension system based on the U.S. land grant model. We are also assisting in developing a system for producing and distributing high-quality seed for peanuts, corn, sorghum and millet. In Kenya, we have underway a major effort to expand rural private enterprises. We estimate that success in this activity will create up to 20,000 new jobs directly or indirectly. At the same time we are starting a new project to strengthen that country's national research system which is critical since only 18 percent of Kenya's land has good agricultural potential. In Zaire several projects are targeted on expanding marketing and transport infrastructure necessary for increasing small farmer production. In Zimbabwe, A.I.D. provides agricultural commodities primarily for the private sector, and the local currency generations are used to finance, for example, expansion of agricultural education institutions, extension services and cooperative development. In Mozambique and Madagascar, A.I.D. is initiating new assistance programs aimed at rehabilitation of the agricultural sector.

A.I.D.'s program also includes projects targeted on combatting depletion of soil resources. For example, forestry projects combining tree planting with land use planning and management and including popular participation are continuing in six countries. A.I.D. is also supporting research efforts to develop fast-growing trees which can help halt the spread of deserts.

C. Population Planning

A.I.D is requesting $23.9 million for bilateral programs for Africa from this account in FY 1986. This is three-times the level for bilateral programs in FY 1982 and does not include an additional $5 million in the Sahel account. Nor does the level include activities in Africa funded through the Science and Technology Bureau. Through all of these sources, A.I.D. is reaching 40 African countries. Our efforts continue to develop a capability to provide voluntary family planning services closely integrated with health programs.

By the year 2000, the total population of Africa is projected to reach 680 million, nearly double that of 1980. African leaders are increasingly aware of the implication of population growth. Seven governments have official population policies supporting voluntary reduction of birth rates. Twenty-four countries have national population commissions, private family planning associations or similar organizations.

In FY 1985 and 1986 we plan new projects in four countries (Burundi, Ghana, Kenya, and Sudan) and three Sahel countries (Mali, Burkina Faso, and Senegal). In Kenya, the country with the highest rate of population growth in the world, we are starting a major new project aimed at expanding delivery systems which will support both governmental and private organizations. In FY 1986 A.I.D will fund bilateral programs in 10 countries as well as two regional programs.

D. Health

In FY 1986, A.I.D. is requesting $28.4 million for health programs in Africa. Reducing health problems in Africa is closely related to improvement in agricultural productivity and reduction in the population growth rate. A.I.D's program continues to focus on expanding primary health systems in rural areas. Most of our assistance is allocated to efforts to improve management and planning, training of personnel, and treatment of diseases, particularly communicable childhood diseases.

The largest single activity we finance is the regional project aimed at reducing childhood communicable diseases for which we are proposing $12 million in FY 1986. This project, carried out with other donors, strengthens the capacity of governments to provide selective, proven health care technologies. These technologies include immunization against six major childhood diseases, oral rehydration to treat diarrhea (ORT), and treatment of malaria. In concert with other donors, this project will cover most of sub-Saharan Africa.

Other major bilateral health projects are underway in Malawi, Somalia, Zaire, and Liberia. Last fall A.I.D signed a cooperative grant with Howard University for a project in Malawi combining health and family planning activities. The project seeks to develop an innovative primary health care program which will include user fees as part of the effort to reduce recurrent costs. The $6.5 million grant to Howard is the largest cooperative program A.I.D has ever signed with an historically black institution. In Zaire, A.I.D is supporting expansion of rural health services, creation of a School of Public Health, and provision of health care and safe water supplies in the Shaba region.

A.I.D will continue to work with African countries and other donors in addressing health constraints on a focussed and selective approach. We will support expansion of health technologies such as ORT for diarrhea and immunizations for communicable diseases. These services will be provided in ways that do not overwhelm the capacity of governments to sustain them.

E. Education and Human Resources

For FY 1986 AID requests $55.2 million for programs for Africa from this account. Basic education and skills training are fundamental to sustaining development programs in Africa. A.I.D.'s effort in this area is devoted to improving primary education, increasing the skilled workforce and improving the quality of management.

The largest single training activity is a regional project covering most of Sub-Sahara Africa under which about 1000 participants receive training each year. In Kenya, a major new training project will begin in FY 1986 focussed on providing high-level technical training, while in Cameroon, Lesotho, and Liberia projects are underway aimed at expanding primary education systems. In Somalia a project is being developed to strengthen management skills.

F. Selected Development Activities

These activities, for which $14.4 million is requested in FY 1986 for Africa, address cross-sector development problems and support efforts to broaden private sector participation in development. Projects include assistance to a number of African institutions such as the African Development Bank and others engaged in such fields as water use, credit union development, and economic integration. In Sudan and Burundi projects focus on increasing energy resources such as fuelwood and peat.

G. Sahel Development Program

The FY 1986 request for the Sahel is $80.5 million. Although a decrease from the FY 1985 level, this request does not reflect a diminished interest in the region. The impact of the drought has slowed project activity in some countries, and the availability of some prior year funds permits a lower request level. The region has suffered considerably in the current drought, and substantial emergency assistance has been required. The proposed FY 1986 program consists of a combination of project and non-project assistance designed to encourage significant policy reforms, food self-reliance production, training, family health and stabilization of the national environment.

In Senegal, Mali and Niger, A.I.D is already involved in significant policy reform dialogue. In Niger, A.I.D is working closely with the government to bring about policy changes contributing to greater private sector activity and small farmer productivity. In Senegal, a major part of our effort involves reforms in the pricing and marketing of fertilizer and rebuilding the private sector marketing infrastructure. In Mali, a major focus is on accelerating agricultural pricing and marketing policy reform and reducing the government sector.

In support of increased agricultural productivity throughout the region, A.I.D.'s program addresses both dryland and irrigated farming as well as livestock production. Agricultural research is an important component of the program as is a continuing examination of the potential of the Sahel's major river basins. Other significant activities focus on seed production and crop protection.

Although the emphasis is on agricultural development in the Sahel, there are also a number of activities in the health and training sectors. Rural family health projects are underway in Senegal and Niger; a new project is planned in Mali. In addition, through the regional program, there are projects supporting oral rehydration therapy and family planning. Similarly the regional program includes funds for participant training and, in particular, for financial management training to help improve fiscal accounting and monitoring of development programs in Sahelian countries.

H. Economic Support Funds (ESF) for Stabilization and Growth

The Administration is requesting $461.5 million for Africa programs from the ESF account in FY 1986. ESF is critical to providing the economic stabilization needed today so that our Development Assistance programs can produce economic growth tomorrow. These funds not only provide resources to assist countries of particular security or political importance to the U.S., but also to support economic policy reform. Programs usually consist of balance of payments and budgetary support and are linked to reforms which promote economic recovery. In many cases, ESF supports long-term economic development needs. This is done either directly through supporting projects as in Botswana, Chad, Zaire, Zambia, and the Southern Africa Regional programs and indirectly through local currencies generated by the programs such as in Zimbabwe. In many instances, ESF supports our priority interests in stimulating agricultural productivity and expanding the role of the private sector. In FY 1986 ESF is requested for 16 bilateral programs, and one regional program. In addition, $75 million is requested to continue our targeted policy reform program.

In East Africa, ESF programs in Kenya, Somalia and Sudan are closely linked to structural adjustment programs centered primarily on stimulation of agricultural production. In Southern Africa, we propose continuation of the commodity import programs in Zimbabwe and Zambia as well as some project assistance. In Zimbabwe this program channels a minimum of 80 percent of the funds to the private sector. In Zambia the program is closely tied to agricultural development. In Botswana ESF consists of projects in agriculture and education. The Southern Africa Regional Program includes funds for improving the quality of education for disadvantaged South Africans. The program funds university level education in the United States as well as education and entrepreneurial skills training in South Africa for black South Africans. In Zaire, A.I.D. will initiate a project in Central Shaba to assist small farmers primarily through improved marketing infrastructure. In the Sahel, the ESF program will provide funds to support a structural adjustment program in Senegal, agriculture sector development in Niger, and road rehabilitation in Chad. In Liberia the ESF will provide budgetary support to assist in creating the basis for economic recovery.

I. P.L. 480 - Titles I and II

The FY 1986 request for P.L. 480 is $162.5 million for Title I and $62.4 million for Title II. The growing number of food deficit countries in Africa during the 1970's led to an expansion of the food aid program. Countries receiving concessionally financed food aid, Title I, III or Title II (including Section 206), have demonstrated a need for external resources to improve their food production, marketing, distribution, and storage systems. They also have shown the ability to use the resources made available through the sale of food commodities and have agreed to undertake self-help measures to expand and improve production, storage, transport, and distribution of agricultural commodities. Self-help measures vary from country to country. For example, P.L. 480 wheat sales to Sudan were used to secure the elimination of subsidies on bread, thereby reducing a budgetary drain and encouraging domestic production of alternative foodstuffs.

Title II (Section 206) program recipients are typically LLDC's which require highly concessionary food aid, face recurring structural food deficits, and experience relatively frequent food emergencies. There are currently four Section 206 programs being carried out in Burkina Faso, Cape Verde, Mauritania, and Mali.

The Title II grant program's objective is to alleviate hunger and malnutrition of peoples in the poorest countries of the world. Women, infants, preschool children in maternal/child and day-care centers, older children in school feeding programs, and adults in food-for-work projects are priority recipients of Title II food assistance. CARE and Catholic Relief Services (CRS) are the two major voluntary agencies using Title II resources in regular ongoing programs.

In conclusion, I wish to re-emphasize my view that despite the overwhelming problems facing Africa today, there is hope. The increasing willingness of African leaders to undertake economic reforms provides a new opportunity to revive growth on the continent. We are proposing a closely integrated program of assistance which maximizes our support for what must be an African-led renewal. I hope that working together we can contribute to a lasting improvement in the quality of life of the African people.

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Senator **Kassebaum**. Thank you very much, Mr. Edelman.

Dr. Lyman.

STATEMENT OF HON. PRINCETON LYMAN, PH.D., DEPUTY ASSISTANT SECRETARY FOR AFRICAN AFFAIRS, DEPARTMENT OF STATE

Mr. **Lyman**. Thank you, Senator. I, too, would like just to make some brief oral remarks. You have my written statement. Let me just try to put some of the discussion we have had into context.

First of all, in listening to the discussion this morning, and questions about what we are doing, and the relative emphasis in our program, I think it is important to start with why we are involved with Africa, what are our interests in Africa.

We have quite a few. We have some strategic interests in certain parts of Africa. We have a tremendous humanitarian interest in Africa, and I think it is important to realize how important that is to the American people. We saw it during the recent drought emergency, when the American public contributed over $90 million, an unbelievable contribution.

Contributions poured in because Americans felt it was important to help people on the African Continent when they saw what was happening there. That is an important part of our relationship to Africa.

A good portion of our population owes its roots to Africa, and that is a tie. Africa also represents an important bloc of nations internationally. By and large we have good, productive relationships with most of the countries of Africa.

There are very few countries in Africa with whom we do not have relatively good relationships. The African countries are an important force internationally. It is the African bloc by and large which has resisted efforts among some elements in the United Nations to deny credentials to Israel in the United Nations.

The African nations have voted to condemn by and large the invasion of Afghanistan. They are an important force on the international scene, and they are important friends of ours. But how do we array all of our interests in Africa? How do we put them into some kind of relationship?

Actually, the aid request in some ways reflects that. There has been a lot of discussion this morning about the military assistance request, but look at the aid request. It is 83 percent economic and 17 percent military. If you add emergency assistance to Africa, our economic aid is seven times our military aid. That is not accidental. That is how we array the nature of our relationships and interests in Africa.

The problems that we share, the goals that we share with our friends in Africa overwhelmingly are economic. That does not mean there are not security interests. There are clearly friends of ours in Africa who face serious security threats, and we have tried to help them, but there has been a lot of talk here this morning about 60 percent increases in our military assistance.

Look at the request levels. If you look at the request levels for 1984, 1985, and 1986, they are almost exactly the same. There is a certain level of security assistance that we think is important, and it is concentrated in a few countries that face serious threats.

Look at the nature of our military assistance request. Overwhelmingly it is in maintenance. It is in training. It is in mobility. It is in communications. It is in professionalism. It is not in high-priced weaponry, and in many countries there are no lethal items in our request.

Take our request for a new program in Mozambique, something that has occasioned a great deal of discussion, a very small, very small request for nonlethal equipment for a country that has made a major shift in its political orientation. A country with a commitment to find peaceful solutions to the problems of Southern Africa; that is struggling with an overwhelming set of problems; and which looks upon this very small offer of security assistance along with a much larger request for economic assistance as a sign that we recognize the direction in which this country is going. Those security aspects are part of it, but the overwhelming emphasis is on the economic aid.

Now, we have talked a lot this morning, there has been excellent discussion this morning, about the problems of foreign aid and the problems of development, but there is a danger of losing our perspective. Development, as Mr. Edelman has pointed out, is a long-term process. When we say that Africa stagnated in the seventies, therefore our aid in the seventies must have been all wrong or wasted, we miss the point.

I started my career working on Asia, and some of us at a recent AID directors' conference who worked in Asia began to reminisce. We remembered that in the early sixties, everybody thought that Asia was facing years of disaster. We thought India was certain to have famine for another decade.

When I went to Korea in 1964, it was, if you will pardon the expression, known as the "rat hole" of American foreign assistance. Everybody thought the aid had been wasted. When I first joined AID someone suggested, "Can Korea export?" and my boss at the time said, "How much seaweed does the world need?" Because that is all it exported in 1961, $20 million of seaweed.

Now it exports $11, $12, or $13 billion, but if you had asked anybody in 1964 if Korea could export in the billions, people would have said absolutely not.

Now, many changes took place in Korea in the sixties, but they were built on an enormous amount of experimentation, of mistakes, of investment that had taken place before. I think that is what is going on in Africa today. There is no question that everybody has made mistakes.

Africans have made mistakes. Donors have made mistakes. Lots of people have made mistakes. But a lot is going on. A lot of experimentation is going on. A lot of training is going on. Everybody I know who has worked in Africa for as long as I have, more than a decade, realizes that when you are sitting down at the table in Africa today you are dealing with a much more sophisticated cadre of people than you were a decade ago.

Education has had an effect. There are people wrestling with problems in new ways in Africa, and there is no question about it. There is a lot that has been learned and experimented with. We talk about the famine in Africa, and it is terrible, but I traveled through western Africa during the drought of 1972 and then again last year.

The drought is unquestionably as great in western Africa now as it was a decade ago. But a decade ago 100,000 people died in western Africa in the Sahel. Why did they not die this time? Why did we not have 100,000 die? Because some of the institutions that Elliot Berg was talking about have been developed in West Africa.

When we went through northern Senegal, where the drought was so severe, the Government was setting up feeding stations, the Government was anticipating needs. It was talking to donors. There was a chain being set into motion to get food on time. We do not have that unfortunately today in Ethiopia. We do not have it yet in Mozambique.

But we have it today in West Africa. We do not have 100,000 people dead today who would have been dead 10 years ago, and that is a sign that things are changing in Africa. We should not be totally discouraged, even when we have made a lot of mistakes.

It is with that in mind that we need to look at what is happening in Africa today. Elliot Berg and Carol Lancaster and Jack Shepherd all mentioned some of the countries and some of the changes going on, and I would just add to that somewhat because a number of countries have done things.

They mentioned Zaire. Zaire has long been considered a country that has been badly managed, and indeed it has been badly managed, but today, thanks to a courageous 80 percent devaluation, one of the freest foreign exchange systems in Africa, and liberalization of key elements of the economy, we are seeing growth again in Zaire.

We are seeing growth again in Ghana after years and years of stagnation. We are seeing agricultural increases in Togo and Zimbabwe because of changes in policy and incentives. We are seeing in Sudan, as difficult as the problems of that country have been, we are seeing more incentives to farmers, more freedom of farmers to grow food crops and cash crops.

We still have tremendous problems ahead of us, but there is no question that we need to stay with this process. We have too many interests in Africa simply to walk away from it, and we have too much of a stake in its future to be totally discouraged by the mistakes and the problems.

We will face some severe problems ahead in Africa. Because African commodities for export are in a long-term decline, many of the commodities that Africa has traditionally relied on will not command the prices they commanded before. The world is changing. The nature of technology is changing.

The substitutes for raw materials are growing. Africa's change, Africa's shift into new commodities, new exports, new areas is going to be slow and difficult. So, we are going to face some financial crises over the next few years in Africa as they struggle with the problems of debt, even as they struggle with the problems of policy and institutional adjustment.

Here donor coordination does become terribly important. And the type of aid we provide becomes terribly important. The World Bank in its three consecutive reports has called upon the donors to be more flexible in assistance, to get at the problem that Mark has just mentioned of so many different projects rather than timely supply of things like fertilizer and seeds, et cetera, or maintenance support for roads rather than building new ones.

We can do that more. Our own program has shifted more in that direction. We have urged other donors to move in that direction, and indeed many of them are doing so. We do support donor coordination. You asked a question about the African economic reform program. We see that not only as encouraging African governments to make reforms, but we have engaged in very extensive consultation with the donors to see if others will join us in particular situations so that the amount that we make available to any one country is supplemented by what others do, so that the amount of encouragement is really very significant in any 1 year for any country.

We are engaged in those consultations right now. There is a place for both bilateral and multilateral aid in this process. There is no question about the singular importance in its own area of expertise of the IMF, and there is no question about the important role that the World Bank plays.

But there are times when the World Bank looks over its shoulder and says, are the bilateral donors with us on this one? Are we going to be able to say together, this must be done in country X? And are we going to work together on it?

The World Bank is made up of its creditors, and we are one of them, one of its board members. How we use our bilateral assistance in conjunction with the multilateral institutions can strengthen their effectiveness. Just the way they use their resources can strengthen our objectives. So, we are trying to have a balance.

Finally, I would comment on the question of small programs versus large, or whether we are extended too far in Africa. We feel that the primary concern in Africa is economic development, and if we are going to be in a partnership with Africa, we need to be in a partnership with the countries we are engaged with in economic development.

In some cases they are very small programs, but also we are talking in some cases about very small countries. I do not know why a small project in a small country is any less useful for the people who are affected than putting that money into a larger country.

But the political reality is that Africa is made up of over 40 independent governments, and if we are going to work with them, out of respect for their independence and their place in the international scene, we need to cooperate with them.

We and AID are now working very closely together on one of the problems that Mark mentioned: How can we manage this very broad range of activities in so many different countries in the most effective manner? And there are ways to manage it better, better use of private voluntary agencies, and a better mix between project and nonproject assistance.

Finally, Senator, I would just mention one other thing about Africa that we sometimes overlook, and that is with all of the problems in Africa, and all of the mistakes, and all of the needs for change, there is something wonderful about the resiliency and the character of Africa, and the way it treats its own people.

We see it most of all in the refugee crisis. In Western Sudan, some 100,000 Chadians moved in during the drought. It was very hard for the UNHCR to distinguish, however, refugees from Sudanese drought victims, because the Sudanese took the Chadians into their homes and treated them as if they were their own people.

In Eastern Sudan, the number of refugees that Sudan has taken in is the equivalent if 11 million people crossed our border from Mexico in the course of a year seeking that kind of emergency help. That gives you a sense of what Sudan among many countries of Africa is willing to do, even when it is poor, for its own neighbors. And within countries you see people helping each other in times of stress.

So, when we look at the stagnation, the problems, the failures, I think we have to see some of the strengths that hopefully will bear fruit in the next decade, and see Africa growing. I think we can be a very important part of that. If we are, I think it will redound to our own political benefit as well as to our humanitarian interests.

Thank you, Senator.

[Mr. Lyman's prepared statement follows:]

PREPARED STATEMENT OF HON. PRINCETON LYMAN

I appreciate this opportunity to discuss the "African economic crisis," its roots, its devastating political-economic impact, and what we, other donors, international financial institutions, and African governments themselves are doing about it. Those who have examined the complex nature of the crisis are aware that Africa's economic problems do not lend themselves to easy solutions and will require a major effort on the part of all the main actors.

Because of the magnitude of human suffering, public attention has focused on the drought and the accompanying famine, malnutrition, and even death in the most seriously affected African countries. Over 20 million Africans risk starvation unless they receive food assistance. A large number also need shelter, blankets, and medical attention. The U.S., other donors, and the American public working through private voluntary agencies have all responded generously to this vast and immediate humanitarian need -- and literally millions of lives have been saved.

In the U.S., both the President and Vice President have given the African food crisis their personal attention. On January 3, the President announced his "African Hunger Relief" initiative which outlined how the Administration expected to address Africa's immediate emergency food needs, its pressing refugee problems, and the longer term need to stimulate agricultural development in Africa. To help meet Africa's food needs, the President announced: a U.S. commitment to provide emergency and regular food aid over $1 billion -- about half of Africa's overall requirements; a $25 million drawdown from the U.S. Emergency Refugee and Migration Assistance Fund for finance urgent refugee needs in Africa; and the "Food for Progress" initiative designed to help countries wishing to undertake market oriented policy reforms in the key agricultural sector which provide farmers incentives to increase production.

During March 4 - 11, Vice President Bush visited Sudan, Niger, and Mali, three of the most seriously drought-affected countries, to study firsthand the dimensions of the famine problem, what we and other donors have been able to accomplish, and what still needs to be done. Though profoundly shocked by the degree of human suffering witnessed during the trip, the Vice President and his party did see signs of hope. Massive amounts of donated food are reaching famine victims, thanks to contributions of U.S. and other foreign governments, the efforts of private voluntary agencies, and self-help measures being undertaken by African governments.

Aside from immediate famine relief, the Vice President's trip also highlighted the positive signs in Africa of change and clear evidence that timely and well directed assistance does make a difference. The Vice President was impressed by steps being taken by the governments of Sudan, Niger, and Mali to provide incentives to small farmers and in general to induce greater private sector growth. These steps reflect a significant change in attitudes in Africa and provide a more positive environment for using assistance. In Mali, the Vice President concluded two agricultural development project agreements to help improve farming techniques and provide needed fertilizer and equipment. In Niger, he authorized new funding to strengthen Nigerian farm cooperatives and seed production. And in Sudan, he released $15 million to provide fertilizer and pesticides.

The Vice President went directly from Africa to the UN Conference on the Emergency Situation in Africa on March 11 and met with representatives of the principal donor countries. The Vice President's speech received a tremendous ovation from those present and set the tone for serious and determined discussions on how to tackle the African emergency. Participants, including representatives from the U.S. Congress, were able to exchange information on planned donor emergency assistance to Africa, on how best to coordinate aid efforts, and on the needs which remain to be met. These discussions produced the desired results. The Vice President renewed the U.S. commitment to supply half of Africa's total food needs this year and, together with pledges from other donors, ascertained that all but a small amount of food needs remain to be met.

While the urgency of the drought has required that we focus great energy to the immediate situation, it is apparent that we must take a longer term approach at the African crisis to promote development and to strengthen African economies so that they will be able to withstand better such natural calamities in the future.

Already weakened by the oil shocks of the 1970's, the world recession of the early 1980's, soaring interest rates, and plummeting demand and prices for commodities, African governments compounded their difficulties by pursuing misguided economic policies. However, African governments are increasingly acknowledging past mistakes in economic policy and taking corrective action. Country after country has changed economic course to devote more attention and resources to agriculture. This has sometimes involved major devaluations, reduced budget deficits, the reduction of dysfunctional bureaucracies and unnecessary controls, etc. While the degree and effectiveness of these actions has varied widely, most countries are moving in that direction. The adjustment process is painful and potentially dangerous from the viewpoint of political stability. It takes political courage to close parastatals and decrease or eliminate price subsidies for urban dwellers. Nonetheless, some countries which have taken the medicine are beginning to show positive results:

In Zaire, thanks to a courageous 80 percent devaluation in late 1983, budgetary discipline, and liberalization of key sectors of the economy, GDP growth, which was a negative two percent in 1982, was a positive three percent in 1984 and a similar performance is expected in 1985. Furthermore, inflation came down from 76 percent in 1983 to around under 20 percent in 1984. The Government of signed a BIT treaty with us and welcomes foreign investment. I am pleased to report that Zaire's foreign exchange regime seems to be working, and economic growth has resumed. The rigorous enforcement of the IMF's programs and the World Bank's work with Zaire's mining industry has had an important effect in reducing the misuse of Zaire's scarce resources. Foreign investment has begun to flow in small quantities but this will take time to have an impact. On the negative side, despite generous Paris and London Club debt reschedulings, Zaire must spend more than half its budget on debt service, with little left over for economic development. And the situation is not very different in other countries.

In Zimbabwe, a country severely affected by drought during the past three years, the government's judicious agricultural policies have protected its people from potential starvation and dislocation. The Government has encouraged stockpiling maize and commercial farming in general. It also worked to bring the benefits of commercial farming into the traditional sector by constructing roads, building grain silos, and introducing new methods and seeds into these areas. In fact, Zimbabwe's policies have been so successful that last year imports of maize were reduced by one-third after the produce from the traditional sector began to appear on the market. This year, with a maize surplus of between 500,000 and 1 million metric tons expected this year, Zimbabwe is in a position to export maize once again, .

In Madagascar, steps taken to liberalize rice marketing and prices have resulted in substantial increased production and foreign exchange savings as rice imports dropped from 356,000 tons in 1982 to 110,000 tons in 1984.

In Ghana, with black Africa's second largest economy, repeated IMF/IBRD economic shock treatments have checked its long downward spiral. Ghana's economic policy reforms -- including easing of price controls and budgetary discipline -- have produced two consecutive years of growth (1983 -84).

In Togo, higher price incentives for farmers and effective extension work produced a record cotton crop of 50,000 tons, doubling last year's production. USAID's Animal Traction Program, which provides cash for purchase of oxen and equipment contributed to this success.

Lastly, as Sudan has illustrated, there is considerable scope for raising agricultural production through the use of new technology. Test plantings of a new hybrid sorghum in 1984 indicate it could double cereal potential there. However, the effective use of this technology in most African countries will require the removal of institutional and policy constraints.

The point of listing these solid achievements is to stress that, in the midst of Africa's deep economic crisis, good economic management does make a difference. Policy reform, however, usually requires resources and it is therefore essential that the U.S. and other donors help reform-minded countries through this painful process.

The African Economic Reform Program, initiated in FY-85, is specifically designed for this purpose. I would like to take a moment to bring you up-to-date on what we have undertaken so far, as well as the implications for FY-86. As we have already informally notified you, we have initiated discussions with four countries, Zambia, Malawi, Rwanda and Mali. We hope to have Congressional Notifications with specifics on programs to you shortly. As you will see, each of these programs has been tailored to the needs of the recipients, i.e. how can we best support their efforts to restructure their economies towards growth. In all cases we consulted with other major donors, including the World Bank. In several cases our programs were closely linked to others' activities for maximum impact and minimum bureaucratic burden on the recipient. While the results are not yet in, we believe that our efforts will produce a significant increase in effective assistance from other donors as well.

We have accepted the will of the Congress as reflected in the FY-85 Continuing Resolution and chosen to ask for ESF rather than DA funds for this program in FY-86. We plan to apply the same criteria for country choice that were used this year, as previously furnished to this committee. We have made no decisions on countries for next year but expect that as a practical matter there will be few repeats from FY-85. We shall consult with this and other appropriate committees as our programs continue.

On the multilateral side, we see a crucial role for the IMF and World Bank. Their capability to discuss difficult decisions with other countries often exceeds any possible bilateral role. We work closely with the Bank in sector and project assistance. We were pleased that the Bank has focussed its attention on supporting policy reform. We do not intend to contribute to the Bank's new African facility, not over disagreement with its goals, but because we had developed our own initiative. Our initiative last year in seeking and securing funds to support policy reform, was in many ways a precursor of the Bank's new African facility and we intend to work closely with the Bank when its facility becomes operational later this year. In establishing the facility, the World Bank looked both for direct contributions and cooperative bilateral financing. We and several other donors are in the latter position.

We must on our part decide whether our resources should be employed in a particular program or as part of an overall economic strategy. The dialogue on this subject is not always easy but it is necessary and involves considerable diplomatic skill.

Overall, we are proud of our record on assistance to Africa. We are the second largest bilateral donor of aid to Africa. U.S. economic assistance has grown from $767 million in 1981 to over $1 billion in 1985, not counting emergency assistance. In a year of extreme budget stringency we are proposing a modest increase for FY-86.

In conclusion I would just like to note that Africans have long recognized the basic interconnection between economics and politics, between economic growth and political stability, and the reverse. African governments currently face an unusually large number of serious economic problems. Most are facing up to these problems, if not always at the speed outsiders, including the U.S., would wish. This situation underscores the political vulnerability of many countries, which others are willing to exploit. It is essential that our response be as varied as the problems are diverse. I have already covered the economic and would now like to turn to the security side.

SECURITY ASSISTANCE

Our Security Assistance program for Africa recognizes that political security and economic security are inextricably intertwined. It is concentrated in areas where we have security interests and where the threat is tangible and clear. We are painfully aware from the Soviet practice that massive arms aid tied to meager economic assistance results ultimately in structural disarmament - that is, the phenomena of "rusting-iron" monuments to military friendship found in areas where the local economy simply cannot support the maintenance of the military hardware provided. Almost 83 percent of our total foreign assistance request for Africa is in the form of economic and food aid. The relatively small military assistance request is almost all grant in recognition of Africa's massive economic problems. By encouraging the development of an educated and professionalized military, our security assistance program reinforces the structure on which the stability necessary for economic growth and stability depend.

We must recognize, however, that Africa faces genuine security threats. Our security assistance is intended to promote stability in the face of Libyan, Soviet and Cuban adventurism. States threatened by this adventurism or hostile neighbors cannot devote the energy or resources necessary for economic development. U.S. assistance permits friendly countries to acquire modest quantities of military equipment in order to improve the border patrol and self-defense capabilities of their armed forces, thereby decreasing territorial threats and enhancing regional stability. Transfers of sophisticated weapons are discouraged.

Our request for FY-86 is roughly the same as in FY-85. Of our total 1986 request for Africa, just over 1.2 billion dollars, only 17% is for military-related assistance. While the military component is small, it is nevertheless extremely important if we are to continue the programs of logistics and training that we have started and if we are to provide the bare minimum in the way of defense equipment for our friends facing threats.

In the Horn of Africa, our security assistance is directed toward: helping Somalia defend itself against attacks by Ethiopian forces and Ethiopian-supported rebels; assisting Sudan in protecting itself from Libyan incursions; and helping Kenya and Djibouti to modernize their forces. These efforts are clearly, in magnitude and choice of equipment, defensive, not offensive. Our assistance is coupled with diplomatic efforts, by ourselves and our allies, to reduce tensions in the area and find ways to diffuse tense border situations that could flare up into major military confrontations.

Southern Africa remains an area of continued effort. Aid to nations in southern Africa (Botswana, Mozambique, and Zimbabwe) is geared toward reducing tensions and encouraging the evolution of an internationally acceptable agreement for the independence of Namibia.

Our initiative to provide security assistance to Mozambique warrants special mention. By providing non-lethal items such as uniforms, communications equipment, trucks and training, we are working in parallel with our allies to reinforce Mozambique's support of regional stability by offering an alternative to total dependence on the East Bloc for military supply. At the same time this assistance will bring the Mozambican Armed Forces into contact with the U.S. military.

A more detailed analysis of our request will put it in context. The 1986 MAP request is for $189.4 million, the 1985 request was for $190.5 million and the actual allocation as a result of the CR process was $149.0 million. You can see that our 86 request is virtually the same as the 85 request. The

1986 FMS credit request is $18.0 million, up $6 million over 1985 as a result of an increase in Cameroon and the addition of $5.0 million for Gabon. Only three countries in sub-Sahara Africa receive FMS credits: Gabon, Cameroon, and Botswana. Our FY-86 IMET request is for $11.5 million. The FY-85 request was for $11.1 million and the actual allocation was $10.9. Our IMET program (request and actual) has remained remarkably constant and continues to be one of our most effective tools in Africa.

Three new programs are contained in the 1986 request. We propose a small MAP program for Equatorial Guinea. This $1.0 million program would begin to refurbish Equatorial Guinea's patrol boats and hopefully provide the Navy with at least a minimal capability. The Soviets provided the original equipment and did not support it. The patrol craft are currently not in seaworthy condition. Equatorial Guinea is another of the growing list of countries that are turning to the West and the U.S. for assistance in the wake of Soviet mis-treatment.

We also propose to begin small IMET programs in Sao Tome and in the Comoros. Both countries are well aware of the IMET program and are anxious to send a few officers to the U.S. for training. Relations have improved with both countries and we would like to offer these programs as a demonstration of intention to continue the warming trend in our relationships as well as begin to have more contact with the military leadership which formerly had contacts only with the Soviet Bloc.

REFUGEES

Another important element of U.S. policy in Africa, closely related to the question of the drought and the mass movements of people across borders which it has caused, is that of U.S. refugee assistance. Though many of those crossing borders in the past six to eight months are not refugees in the strict sense that they are fleeing for political reasons, their needs are equally impossible to ignore. Thus, in places where there are already refugee assistance programs, refugee assistance organizations such as the UNHCR, ICRC, and numerous other private voluntary organizations have taken on at least temporary responsibility for relief of these persons, and U.S. contributions in traditional refugee assistance channels have had to keep pace accordingly. The number of refugees in Africa, or people being dealt with as refugees, has increased by 20% since mid-1984, to 2,500,000. About 40% of those are in Sudan, particularly in eastern Sudan. Commitments to UNHCR and ICRC to date in FY-85, including drawdowns of the Emergency

Refugee and Migration Assistance Fund, now total $66.5 million. Total U.S. Government assistance to African refugees from all sources, including food and in-kind contributions, is expected to reach $150 million in FY-85 (compared with $105 million in FY-84).

The State Department budget request for FY-86 includes a total of $48.5 million for UNHCR and ICRC refugee operations in Africa. Last year at this time, we noted that refugee numbers in Africa had somewhat stabilized, and expressed our hope that we could, during FY-1985, turn our focus to longer term efforts, including enhanced prospects for voluntary repatriation and programs aimed at integrating refugee assistance into the overall development schemes of the host countries. This is still our hope, and planning for U.S. support of these longer-term projects continues in tandem with our emergency efforts; some have already been funded. The dire situation of even those refugees who have been settled in camps for some time serves to point up the need for efforts to make refugees more self-sufficient. We must be certain that these longer-term efforts are not lost or neglected in the aftermath of the crash effort we are now making. Nevertheless, we will also have to keep our eye on the continuing potential for further emergency needs, and be prepared to meet them. As there is no way of predicting such variables as rainfall, we would expect to continue to meet these unanticipated, and "unanticipatable," needs from emergency funds as needs arise. We also will be keeping in close touch with the major refugee relief and assistance organizations as they develop their appeals for the coming year.

Turning to the regional picture, I would like to begin with West Africa.

WEST AFRICA

West Africa is an area of endemic poverty and political instability whose continued deterioration could have serious consequences for our interests. Major U.S. objectives in the area are to (a) assist in long-term development and the immediate crisis of hunger when it occurs, (b) promote regional political stability by helping governments to resist external -- mainly Libyan -- adventurism and destabilization; (c) foster our continued access to important raw materials and markets (e.g., Nigeria, which is both an important and relatively secure major source of oil and an important locus of U.S. investments; Guinea with its important bauxite reserves), and (d) continue our access to important ports and airfields and other facilities.

While the American presence and aid levels in the sixteen countries of West Africa generally are not large, they are significant. In drought affected countries such as Niger and Mali our emergency assistance is crucial. Dealing with this is both a short-term humanitarian problem and a longer-term developmental objective. In Senegal our programs are designed to bolster a friendly democratic government. In addition to providing Senegal the largest amount of U.S. development assistance in francophone Africa, we are using ESF to enable the Senegalese to undertake significant economic policy reforms under the auspices of the World Bank. Our assistance programs have been coordinated with France, Senegal's largest donor, and the international financial institutions. We also seek to continue a modest but highly valued $4 million MAP program in FY-86 to augment Senegal's capability to resist Libyan subversion; our highly successful IMET program trains about thirty officers of Senegal's apolitical, professional armed forces in the U.S. We believe that this mix of programs in FY-86 will assist this friend of the U.S. to initiate policy reforms and to preserve stability in this key area in Africa.

In Liberia, where the U.S. is by far the largest aid donor, our ESF, DA, and MAP programs have enabled the government to withstand serious deflationary pressure caused by a precipitous fall in demand for its major exports and capital flight in the wake of the 1980 military coup. Our assistance programs to Liberia are part of a carefully balanced approach aimed at promoting economic recovery, return to civilian rule, and political stability in a nation which is our closest ally in Africa. Our assistance levels are the minimum necessary to prevent an economic collapse which could destabilize the country and jeopardize substantial U.S. interest including three large communications facilities.

U.S. assistance on the economic front has also allowed the Liberian Government to make progress toward national reconciliation and returning the country to civilian, constitutional government by January 1986. In the past year, Liberia held a constitutional referendum, lifted the ban on political activities and began registering political parties. Although there have been problems including a bloody student demonstration, overall progress toward civilian rule has been excellent. The U.S. and other Western nations are assisting this effort through technical and financial assistance. The MAP program funds housing, nation building civic action programs, and a program which seeks to develop professionalism in the Liberian military. These programs are consistent with our efforts to encourage the return to civilian rule.

Our other development assistance programs are concentrated in food production programs designed to induce needed policy reforms and reduce the need for food imports. Evidence of important policy reform can be seen in countries such as Senegal, Mali, and Niger and the beginnings of policy reform in such countries as Guinea, Sierra Leone and Guinea Bissau.

In Ghana, where strained political relations necessitated a suspension of aid programs in 1983, the government has now implemented difficult economic reforms in cooperation with the IMF. Our reinstated aid program is providing important assistance in food production, and U.S. emergency food aid in 1984 played a major role in averting widespread, drought-induced famine.

In all of the examples cited there is a common thread--of helping poor people and vulnerable governments to better help themselves by undertaking needed policy reform, concentrating development efforts on increased food productions, and providing where needed military assistance to help resist outside efforts at destabilization.

EAST AFRICA

Our economic and security assistance is programmed to strengthen the economic growth and domestic stability of East African countries and improve their ability to defend themselves against external aggression. A number of countries, including Kenya, Sudan, Somalia, Mauritius and Madagascar have undertaken tight, much needed economic adjustment programs to establish a stronger basis for self-sustaining growth. Two countries, Somalia and Madagascar, are in the process of correcting earlier severe economic distortions. Last month, for example, the IMF approved a standby agreement and additional funding to compensate for lost export earnings -- critical financial assistance in support of major economic reforms undertaken by the Somali Government. Our aid programs focus in several cases on quick disbursing ESF grants which enable importation of needed inputs to agriculture and commerce and provide the catalysts for financial assistance from other donors as well as assistance complementary to that from international organizations such as the IMF and World Bank.

In Sudan the U.S. has played a leading role in an extraordinary international effort which has mobilized resources to enable Sudan to meet recurring payments for imports essential to development and other obligations.

Through quick disbursing CIP funds and, when necessary, cash grants, we have played a central role in helping Sudan manage its economic resources within the guidelines of IMF and Consultative Group programs. Sudan is a good case study of the difficulty of a sustained reform effort, of the need for consistent but friendly encouragement and support, and at the same time firmness in seeking the changes that are absolutely essential for long-term growth.

Our ESF and PL-480 assistance has been conditioned on the Sudanese undertaking basic economic reforms to expand opportunities and competitiveness in the private sector, liberalize commodity pricing and provide incentives for export production. Our development assistance projects, meanwhile, have addressed the problem of expanding productivity, especially in the agricultural sector, and improving public sector management to strengthen leadership skills for longer term growth. In response, the Sudanese Government has over three years done much to stimulate agricultural production through higher prices to farmers and to overcome distortions in exchange rate management. However, the process stalled seriously during 1984, and Sudan's standing with the international donors and financial community was damaged. In recent weeks, the Sudan Government has reinvigorated its economic policy management and begun to move forward again. It has removed budget subsidies on consumer commodities that were deepening deficits, made further devaluations in the official exchange rate, agreed to liberalize the commercial rate which will once again give producers a fairer return on their products, and proposed other measures to close the budget deficit. These are major short and long term structural reform accomplishments for the country which, in terms of proportional magnitude of debt, is the African equivalent to Brazil or Mexico in Latin America. We have been engaged in an intensive dialogue with the government over the delays in the implementation of additional much needed structural reforms and are encouraged by recent measures announced by Sudan's economic leadership. Our ESF and PL-480 Title I food aid is linked to progress in Sudan's reform policies, leveraging Sudanese cooperation in this difficult recovery process and providing the cushion of painful domestic adjustments.

Continual instability and external threats in the region increase the pressure on east African countries to develop effective defensive forces. Sudan continues to be threatened by subversion from within and without by forces and elements supported by Libya and Ethiopia. Last year the Libyans mounted an air attack close to the capital, underlining the need for more effective air defense systems. The growing security problem on two borders exacerbates the internal political tasks of the GOS. We have made clear to Sudan that our military assistance is not for pursuit of a military solution to problems in the south. President Nimeiri, on Sunday March 3, took this position clearly, announcing an immediate unilateral cease-fire against the rebels and his intention to pursue a political solution.

Our security assistance in 1986 is vital for Somalia to control its borders and manage its own destiny. Somalia is still engaged in an active border conflict with Ethiopia. Ethiopian troops still occupy two Somali villages. Ethiopians bombed a Somali town in the north and have repeatedly engaged in border harassments. Insurgent activity has increased over the last year in the north. Our assistance to Somalia is no threat to other countries being only a fraction of what is being supplied to Ethiopia, but essential to the improvement of Somalia's limited defensive capability. We and our allies continue meanwhile to encourage, through every diplomatic way possible, a lessening of tensions in the region and a process for overcoming border and other divisive issues. We are pleased with the progress in better relations between Kenya and Somalia, in which old enmities are being overcome through statesmanship and cooperation. Unfortunately, no such progress has been possible between Ethiopia and Somalia, but we believe our position has helped dissuade large-scale military attacks across the borders, although lower level violence continues.

Kenya occupies an important position on the Indian Ocean in proximity to southwest Asia. Our national security objective is to ensure our continued access to the region in time of crisis. Kenya permits our Navy ships access to its port facilities, the only modern working port between Durban and Port Said. This access provides our vessels with fuel, provisions, repair facilities and crew liberty and has made a major contribution toward the continued deployment of our naval forces in the Western Indian Ocean.

Kenya is struggling through a severe economic crisis, brought on by the world-wide recession coupled with its own serious economic structural weaknesses. Kenya has taken tough measures to limit its critical balance of payments and foreign exchange deficits through devaluation, import reductions and budget cuts. Fortunately, assistance from the IBRD, the IMF and the world donor community in support of Kenya's short and long term reform efforts is proving successful.

CENTRAL AFRICA

Our security and political objectives in the central African region are to (a) help maintain political stability and foster friendly relations; (b) assist governments to resist Soviet and Libyan destabilization; particularly Libyan subversion and aggression in Chad; and (c) provide key countries with security assistance needed for legitimate self-defense. Our economic objectives are to (a) assist governments in pursuing effective economic and development policies; (b) encourage food production; and (c) provide emergency food aid where needed.

The U.S. has a major policy stake in ensuring an independent Chad in the face of direct Libyan aggression. Libyan occupation of Chad in 1980-81 created serious fears throughout the region and led to strong African reaction. Unfortunately, Libya entered Chad again in force in 1983 threatening the recognized government, and its forces continue to occupy the country's north. Our security assistance support for Chad is designed to complement the efforts of France, which has the primary role in assisting Chad's security. Because of its shattered economic base, Chad needs fast disbursing ESF to restore basic civilian services and development activity as well as MAP to strengthen its capabilities to face possible attacks and continued subversion directed by Libya. Emergency aid is being provided to prevent what could be major famine and malnutrition.

Zaire has been a firm friend and has supported U.S. policies; it contributes substantially to stability in central Africa through its pro-western foreign policy. For example, it supports the Chadian government and provides training in Zaire to Chadian troops. In addition, Zaire has close ties with Israel, with which it reestablished diplomatic relations in 1982. A neighbor of conflict-ridden Angola, Zaire is equally a critical country in the search for peaceful resolution of southern African conflicts. Zaire's military has long been underfunded and our MAP program is designed to get Zaire programs back on their feet, particularly in the key airlift area. The importance of this program was demonstrated last November when Zairian forces were airlifted in a U.S.-provided C-130 to recapture a town in eastern Zaire that had been seized by anti-government rebels.

Zaire has taken major steps to reform its economy. The marketing of copper and cobalt has been reorganized to ensure that the state mining enterprise, Gecamines, receives the revenues from its exports so that it can rebuild its capital base and undertake new investments. The Government of Zaire has continued, for the second full year, to adhere closely to an IMF-sponsored program of austerity and reform. The results have been impressive. The annual inflation rate has been reduced from over 100 percent to under 20 percent. A market based foreign exchange system has been successfully introduced and the black market for foreign exchange has virtually disappeared. The government payroll has been cut, IMF-mandated budget ceilings have been respected, and internal price controls lifted. After years of decline, the economy is now growing and there are increasing signs of a revival in business confidence.

Our FY-86 request is designed to help support Zaire's efforts to continue along this path. By doing so, we help prevent the reform effort from stalling and lay the groundwork for longer term and equitable economic development.

Cameroon provides the example of building on success. It is one of the few countries in sub-Saharan Africa which is normally self-sufficient in food production, though the current drought has affected the country's far north. Cameroon's policies, including emphasis on the private sector and active encouragement of foreign investment, have been conducive to sound development programs. Cameroon's petroleum resources have contributed in large measure to the country's relative prosperity, but since its petroleum reserves are limited, Cameroon's long-term economic viability rests on agriculture. Thus, we have targeted our development assistance in Cameroon to ensuring continued self-sufficiency in food production. Projects are focused on two related sectors -- agriculture and rural education. With a proposed budget of $20.50 million in FY-85, and $21.5 million in FY-86 our economic aid emphasis is on the construction of an agricultural university and the design of its programs, as well as work in primary education with children who will be staying in the rural areas rather than migrating to the cities and seeking higher education there. Our FY-86 security assistance program is modest ($7 million FMS loans, $225,000 IMET) aimed at technical training and ground transport vehicles. Cameroon borders on Chad, and seeks to improve the mobility and efficiency of its modest defense forces.

SOUTHERN AFRICA

We are engaged in a major diplomatic effort in southern Africa to decrease the level of violence and establish more stable bases for regional security and to achieve movement of South Africa away from apartheid and toward a more just system, based on the consent of all the governed. These objectives are inter-related. As long as the level of cross-border violence and the perception of threat remain high, it will be difficult to generate among white South Africans the political will necessary to move toward real reform. On the other hand, there is no question that for as long as it exists apartheid will be a source of conflict and instability in the region, creating opportunities for outside intervention.

We have seen progress toward these objectives. Our agenda of diplomatic resolution of conflicts and of economic development has replaced an orientation toward armed conflict which favored only our adversaries. The Nkomati and Lusaka accords between, respectively, South Africa and Mozambique and South Africa and Angola have greatly decreased the level of cross-border violence and halted fighting between the armies of the countries concerned. Our effort to achieve Namibian independence on the basis of UN Resolution 435 has made important progress. We now have concrete proposals on the table from both Angola and South Africa and are exploring how to bring them closer together.

These achievements are fragile and incomplete. Much remains to be done. The area has vast development potential, but this potential can never be achieved as long as the problems of war, economic disruption, racism and foreign intervention persist. Our assistance programs are designed to achieve greater regional security, economic development, peaceful change and reform in South Africa. They are a tangible demonstration that we, and not our adversaries, have the capacity and willingness to help the countries in the region achieve peace and better the lives of their people.

We strongly endorse and support the objectives of the Southern African Development Coordination Conference (SADCC) which seeks to coordinate development projects of the nine majority-ruled governments in Southern Africa. AID provides direct technical and financial support to the SADCC Secretariat and works with SADCC in various areas, including agricultural research, manpower development, food security and transportation.

In Zambia, the Kaunda Government remains committed to a difficult program of economic reform necessitated by depressed world mineral prices and decline in other sectors such as agriculture. Because of the government's efforts, Zambia has been selected as one of four nations to benefit from the additional funding the Congress has made available in support of African economic reform initiatives. In addition to this special funding, our proposed aid program for FY-86 would continue to assist Zambia's economic recovery through the Commodity Import Program and development of the agricultural sector.

Malawi has also been selected for special funding under the Economic Reform Program. This country has been fortunate, due to climate and sensible agricultural policies, not to be so severely affected by the drought. It remains, however, extremely poor and warrants our support as it undertakes new initiatives to diversify and strengthen its economy.

Our aid is helping Zimbabwe to stay on a sound economic footing. Our efforts are focused on the private sector, where an invaluable Commodity Import Program has alleviated foreign exchange limitations that otherwise would have stalled industrial and commercial recovery. The private agricultural sector naturally suffered under the region's severe drought, but all things considered, coped fairly well and, with improved weather this year, now seems poised for major increases in production.

Mozambique has made major desirable changes in orientation over the past 18 months and we have responded by developing diplomatic relationships and economic assistance programs intended to show our support for the change. I have already mentioned the Nkomati Accord, a key move away from armed confrontation. Mozambique has since then moved toward greater participation in the Western economic system. It has joined the IMF and World Bank, adhered to the Lome Convention, signed an OPIC agreement and a Paris Club rescheduling. It was one of the worst drought-affected countries in the region and we have responded with large-scale emergency food assistance. Our assistance programs--including a proposed military assistance program--demonstrate tangibly our support for the Machel regime and the reforms it has undertaken. This support is particularly timely, since the Mozambican Government's turn away from heavy reliance on the Soviet Union is being called into question by continued anti-government violence committed by Renamo, a movement initially created by Ian Smith's Rhodesia, nurtured prior to the Nkomati Accord by the South African Government, and still supported by neo-colonialist Portuguese.

Our assistance program within South Africa is one of the pillars of our policy towards that country. It demonstrates clearly that our policy is not limited to a narrow range of issues nor to dialogue with the South African Government alone. It also encourages individuals and groups striving for change in South Africa.

Working directly with regional organizations, private voluntary organizations, local community groups and individuals, our assistance program is aimed at improving educational and training opportunities for disadvantaged South Africans. Such training is essential to assure that strong and responsible leadership is available to assume increasingly greater positions of responsibility and authority in both the public and private sectors.

Assistance projects address educational and skills training through tutorial programs, scholarship programs, programs for black entrepreneurs, and labor union leaders as well as significant human rights and self-help projects.NOTE: Do Not Print this page: Hold until final has been completed:

Southern Africa is of substantial strategic and economic importance to the United States. We are engaged there in a major diplomatic effort to bring about the independence of Namibia under UNSC Resolution 435, and a situation of peace among countries suffering from a cycle of violence. We have seen progress toward these objectives and in our relationships with all the countries of the region, but we have still major efforts ahead of us.

The area has vast development potential but this potential can never be achieved as long as the problems of war, economic disruption, racism, and foreign intervention persist. Our policy in the region is designed to address these problems through enhanced regional security, economic development, peaceful change and a movement in South Africa away from apartheid and toward a system of governance based on the consent of all the governed. Our assistance programs are targeted at achieving these goals and allowing the area to resolve its difficulties and develop without outside interference, especially from Soviet bloc nations.

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In Zimbabwe, our aid is helping this new country to stay on a sound economic footing. Our efforts are focused on the private sector, where an invaluable Commodity Import Program has alleviated balance of payments and foreign exchange limitations that otherwise would have stalled industrial and commercial recovery. Improved weather has helped the economy.

In Mozambique, we are expanding somewhat our economic assistance program which began in FY-84 to stimulate private agricultural production. In addition, we are continuing to respond to the emergency food needs of Mozambique, among the largest in Africa. Our proposed military assistance program is intended to encourage Mozambique's expanding openings to the West. Mozambique's problems are many and it will require substantial assistance for quite some time.

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Senator KASSEBAUM. Thank you very much. Thank you both for very interesting comments.

Dr. Lyman, I might just start with you, since you mentioned Sudan. I believe Sudan is our largest aid recipient. $254 million, I think, was requested for next year.

Because they were not meeting some of the requirements of the IMF, some of our ESF funds were suspended. Is that correct? And have they been renewed? What is the status of this situation?

Mr. LYMAN. The newspapers called it suspended, but we did not. It is common practice, and Mark can speak to this in more detail, that when we obligate funds, there are certain conditions precedent that the country must meet which are agreements that we make together.

When we obligated the 1984 economic support funds for Sudan, they agreed to undertake certain steps, certain changes in policy and management. They had not done that by the spring of 1985, and we did not release the money. Those conditions were not identical to those of the IMF, but they were related to the same types of discussions they were having with the IMF.

The year 1984 was not a good year in Sudan. It was not a good year politically. It was not a good year in terms of internal security, and unfortunately it was also not a good year in sustaining the kind of economic reforms that Sudan had undertaken in 1982 and 1983.

I am pleased to say that there have been some extremely encouraging discussions going on not only between ourselves and the Sudanese but between the Sudanese and the World Bank. Steps have been taken already to meet many of the conditions in our agreements. Other steps are being taken. We think the country is getting back on the reform path.

Mr. **Edelman**. Senator, if I could add a point. That it is not tied directly to the IMF issue is shown by the fact that there was a total of $120 million in ESF for Sudan for 1984 and of that we have released about half. Only $67 million still has not been released. If we were waiting simply for the IMF, go or no go, none of that would have been released.

It has been an incremental release as desperate needs have come along, and also to say to the Sudanese, you have made some progress, though you have not done all we would have liked you to do. And so we have released some of the funds as they have taken some of the steps.

Senator **Kassebaum**. Dr. Lancaster commented on the resources available as various countries try to meet conditions, and given the economic environment in which they operate and the requirements they are trying to meet, resources become very scarce.

Do you see the economic policy reform being used in any way to assist with resources in some way? I am a little unclear exactly what the $75 million for the economic policy reform is going to.

Mr. **Edelman**. That is exactly what it is going to, Senator. For the funds we have this year, we still have not fully developed the projects, but most likely the funds will be going to Rwanda, Malawi, Mali, and Zambia, just those four. We first of all decided we were not going to scatter funds among a whole bunch of countries, because then the amount of money will not do very much.

But, for example, you were asking earlier about Zambia. In Zambia we would probably be doing something in order to liberalize the agricultural marketing system there, and to coax them to liberalize their agricultural marketing system. We will be providing them with possibly $20 million or more.

Now, that $20 million they would get in return for carrying out certain concrete reforms, and liberalizing agricultural marketing, which would then provide greater incentive for production and ease some of the constraints on production.

One of the problems in Zambia is that the price is the same for a farmer near Lusaka as a farmer who may be very far away. They would both receive the same price, but there are huge transportation costs them for the farmer who is very far away. He has to ship his goods in. But that does not make any difference. He will only get the same amount of money.

Well, if he cannot ship his goods in and at least recover his costs, there is not a great incentive for him to produce more. So this is one of the types of marketing liberalization, to let the price mechanism work more freely, and in return for doing this we would provide them with some money from this $75 million set-aside program that we have.

A question came up also about Mali. I believe Dr. Berg might have mentioned Mali. There is a great dysfunction there between the size of the public payroll and the amount of funds that go into services.

Specifically, and I do not remember if it was Dr. Lancaster or Dr. Berg who mentioned it, but it fits Mali perfectly, Mali a huge public payroll. Not much funds are going for textbooks, medicines to fill up the health clinics and the like.

In essence what we would be doing is some kind of deal, a coaxing deal with the Malians to say, look, if you get people off the public payroll—and there are all kinds of political risks involved for them in getting people off the public payroll—we will provide you with additional funds which then you can spend to provide more school books, more supplies, medicines, things of that sort.

There is the carrot and the stick. There is the reward. There is something they can say they are getting in order to help cushion for them the political problem which was also discussed earlier, of getting people off the public payroll.

Indeed, it is a problem in many countries. The government is the employer not of last resort, but almost of first resort in many countries.

That has been a problem in Senegal, in fact, and in other countries. You are almost guaranteed a job. Every university graduate is guaranteed a job in the Government.

So, you get these bloated bureaucracies. That makes things even more inefficient. It slows them down, slows down the economy, and indeed the more bureaucrats there are, everybody has to justify his existence by sticking his finger into something and slowing down the process.

So, those are the kinds of things we are thinking about doing this year, concentrating the funds in a few countries, to get needed reforms in targeted sectors.

We have been working very closely in all of these with the donor community. We have been talking to the other donors in Zambia, for example. We have been talking very actively, especially with the British, both here and in London, and with the World Bank.

This gets us to the question that was raised about the number of economists for policy dialog. From listening to the discussion, it sounds like the U.S. Government comes in and makes policy determinations that we impose on these governments in a vacuum. That is not correct at all.

Our policy analysis, our economic analysis, our economic advice is done heavily in consultation with the World Bank, the IMF, the other donors, the host countries. We frequently hire consultants.

In Sudan, for example, we have several Princeton economists there under contract providing advice to our mission director. It is not just a U.S.-imposed condition or a U.S.-developed condition. These are conditions that in essence has been discussed with the donor community as much as we can.

Not all of them may agree, but it is not something that one or two economists sit down and decide. Sometimes we consult with the Treasury, certainly with the Economic Affairs Bureau in the State Department. It is a large grouping of people that we bring in and with whom we discuss all of these various economic conditions and economic policies.

Mr. LYMAN. May I add one quick comment on the Economic Reform Program?

Senator KASSEBAUM. Yes.

Mr. LYMAN. The timeliness of resources in relationship to some of these reforms is very important. One of the great fears in many of these governments is, if they liberalize prices or open up the market, the shortage of foreign exchange or the fear of the shortage of foreign exchange will drive prices out of sight and will cause great political instability.

The availability of foreign exchange, at the time prices are liberalized, to bring in fertilizer or fuel for trucks or spare parts or something is extremely valuable psychologically and economically, because it assures people that there are going to be goods on the market, and it dampens some of that psychological inflation that the governments are so nervous about.

Senator **Kassebaum**. I would like to ask for a moment for you to comment on Dr. Berg's statement that we should do what we do best. He said, "There was a period of time when our aid largely was in helping build roads, dams, and so forth."

Is this not really one of the reasons—it is not the only one—that Zaire has seemingly evolved very successfully in the past few years, that they have spent a lot of time and effort and resources on improving their roads and their shipping and transportation, meeting those needs in a way that has surprised many?

Is that not correct?

Mr. **Edelman**. It has been a help, definitely. Certainly there have been several projects that we have done in the Shaba region which have helped.

Senator **Kassebaum**. I am curious. Obviously, transportation is still a real problem throughout Africa, and I have always believed until transportation improved dramatically there was never going to be the commercial exchange and the trade among the nations there that could be very beneficial.

Is this something that perhaps with our focus on agriculture and agricultural needs we have overlooked a bit? I would like your comments.

Mr. **Edelman**. We may have slackened off a bit—I think that would be the right way to describe it, Senator—in the last few years. I think we are focusing on it again. Mr. McPherson just came back. He was with the Vice President on his trip through Africa, and he came back saying maybe we ought to pay more attention to farm-to-market roads, and I think he is probably correct.

The key to the roads, though, is not just building the road. That is the easy part. And if that is all we do, we will in 2 years have nothing but a bunch of potholes. Even more important, is a training component to teach the host country nationals how to maintain that road. Otherwise, we will have nothing to show for our work at all. We have not paid enough attention to maintenance training and putting in maintenance components to what we are doing.

Senator **Kassebaum**. Well, maybe that is a part of vocational technical education.

Mr. **Edelman**. That is right. That is correct. We are thinking about several road projects now in which there will be heavy technical assistance on the training of maintenance. The road is almost secondary to the main purpose, which is to train people how to maintain the roads.

Senator **Kassebaum**. I do not mean this to be critical, but it is something that has evolved in our work with foreign assistance, and that is an industry that has developed in this country itself.

When you mentioned college graduates who were guaranteed jobs, we have now almost created a whole level of college work that is devoted to studying various problems in different countries and making recommendations on what we should do.

I have often wondered over the years that we have been involved—and as you say, not all that long in Africa—what happened to all of these reports that we spend a great deal of money on in analyzing of what we should be doing?

It has become a sort of self-perpetuating program, it seems to me. In and of itself, not without some value, but it might be very useful for us to look rather critically at what the reports achieve, and the cost to us in doing them. Might there be a better way of doing it?

Dr. Berg mentioned something about using our own agricultural colleges, our land grant colleges, in a more productive way, or the colleges and universities for low-tech training there rather than just a lot of money spent in studies going back and forth.

I am simplifying it a bit, but it does seem to me to be something that has grown, and by its very nature sort of perpetuates itself.

Mr. EDELMAN. I share your basic, bias but I would rather have something out there to show than some checks written to a beltway bandit. If that is sort of the bottom line, then I would agree with that.

As far as our using of our resources here, interestingly, we just began about a month ago discussing with the World Bank a joint multidonor effort with the Bank taking the lead, to build up research institutions in Africa.

It will not work very well if the research is done in the United States. The conditions are not the same. Also, one of the crying needs in Africa is that there are not sufficient numbers of trained Africans, which is what is needed to carry on research.

Here I am speaking of 20 years worth of research that it takes to build up an institution. I think you will see in the next few years in the AID programs more of an effort to build research institutions that can do long-range research in Africa.

One of the highest praised institutions in Africa that I have so far run across is called the International Institute for Tropical Agriculture, which is in Ibadin, Nigeria. It gets great praise, compared, in fact, to some of our universities. It has several advantages.

One, it is more experienced in the problems of Africa. Two, it has people who can speak the local language. In running projects in the United States we very frequently confront a language problem which is a severe constraint on a lot of what we do in Africa, certainly in Francophone Africa. IITA seems better equipped to work in the whole African environment with Africans.

Long-term development cannot be done from 3,500 or 4,000 miles away. It has to be done on the spot, with people who know the local customs and the local traditions, and to build up that facility. It means you are not going to see a payoff very soon if we do that, but as I said before, there is not a quick payoff in research. It takes a long time.

But I think that is the right way to go, having tried many different ways. I think that is the right approach to take, to try to build up a few research institutions in a few African countries. We must build some quality agricultural research institutions in Africa.

Senator KASSEBAUM. I have one other question. It was touched on earlier. And that is the question of the rapidly escalating population growth. I think Kenya has a tremendous rate. I think they are the country with the fastest growing population. I just wonder what AID efforts are being done now in the way of family planning in Africa.

Mr. EDELMAN. First of all, Senator, the budget request even from 1985 to 1986 almost doubles what we are asking for on a bilateral basis. We have increased the number of population officers in the Africa Bureau from 8 in January of 1983 to 20 last November.

That is almost a threefold increase. There is an increased effort on the part of AID to work on population also because there is an increased desire by Africans and an increased appreciation by Africans that they need to address the population crisis themselves.

In country after country, the population issue is much more sensitive for sociological, tribal, and ethnic reasons than it is in the United States. It has taken a long time for many of the government leaders to acknowledge publicly the need to make these efforts.

There has been a growing awareness among one after another African leader that this has become a major problem.

To cite a remarkable example President Kountche of Niger, a Moslim, has publicly in the last 6 months on more than one occasion spoken about the problems of population growth in Niger.

That is the first Moslem head of state, I believe, ever to speak out in that regard.

The president of Kenya has spoken out on it, but the vice president of Kenya, who happens to be a Catholic, is a very passionate advocate of more family planning in Kenya, which, as you know, has the highest population growth rate in the world.

In Zimbabwe, they have overcome some of the problems in addressing family planning which were viewed—and probably quite correctly so under the Ian Smith regime—as a way of holding down the black population.

Prime Minister Mugabe also is advancing the cause of family planning, partly because, I believe, as a side note, the most active person in Zimbabwe in this effort, the coordinator of their whole population effort, is a woman named Esther Boehene, who happens to be the sister of Sally Mugabe. It does not help at all if the prime minister's sister-in-law gets to whisper in his ear very frequently about this cause. She is a delightful woman, if you ever get the chance to meet her, a very energetic woman.

So, there is a rapidly growing awareness. We cannot force African countries to adopt population programs. We should not do that. But as they become more willing to accept them, then we are willing to put the funds forward to help them develop programs.

Senator KASSEBAUM. Thank you.

Senator Sarbanes.

Senator SARBANES. Thank you, Madam Chairman.

Gentlemen, I am a little curious, as a starter, to know how your budget was put together. You both recognize the budget times in which we are living. Were you given a mark when you set out? Many of the domestic programs were told they were going to have to freeze or even cut. Were you given such a mark?

Mr. LYMAN. The process works in both directions. That is, we develop the program requests on the basis of what we think are needed, and then OMB comes back at us with the mark.

Senator SARBANES. So you were not given the mark to begin with?

Mr. LYMAN. It comes about halfway through the process.

Senator SARBANES. And the OMB mark for you is obviously not at a freeze level?

Mr. EDELMAN. Excuse me, Senator. The OMB mark that came back was at the bottom line—total developmental assistance for the agency, total economic assistance. It was not so much for Africa, so much for Latin America. It was only by major account.

Indeed, I do not even believe initially it was by functional account. It was just broad development assistance. It was not even by functional account.

Senator SARBANES. Well, then, that mark for the agency not a freeze, I take it.

Mr. EDELMAN. A mark came back, and was negotiated again. There is an appeal process. I do not even remember what the initial number was.

Mr. LYMAN. The basic guidelines that we got, Senator, were that we should do no more than straight lining from the previous year unless we had some exceptional circumstances. Those are the guidelines basically that we are working with.

Senator SARBANES. Was that for all areas?

Mr. LYMAN. To my understanding, yes.

Senator SARBANES. Including military?

Mr. LYMAN. Well, as Mark mentioned, we get the mark at overall levels, yes, sir, for categories of assistance. It does not come back to us country by country.

Senator SARBANES. I understand that, but respond to the question on the military in terms of that bottom line?

Mr. LYMAN. It is including military. The reason I am hesitant is because on the worldwide numbers you would have to ask Mr. Schneider, but it is my understanding that the same guidelines on military assistance as on the economic worldwide, that we should do no more than straight lining unless there were exceptional circumstances.

Senator SARBANES. Would you agree with the perception that once you provide a country with a certain amount of assistance, it is difficult to lower that amount in subsequent years? It may be done, but it is difficult, because the country tends to attach a symbolic or political significance to the fact that its program is "being cut,"an action that is interpreted to say something about the nature of the relationship?

Mr. EDELMAN. Outside of a certain range, that is correct, depending on the size of the program. Going up or down from 1 or 2 years by a few million dollars does not necessarily make any difference if the program is a $20 million program if there are programmatic reasons for it, but if you went to sharp reductions or sharp increases, yes.

Senator SARBANES. I am not sure I agree with that, but I will pursue it in a moment. What do you think, Dr. Lyman?

Mr. LYMAN. I think Mark is basically correct. Obviously it depends on the nature of your relationship with the country. Some countries would like to measure their relationship totally in the annual aid level. We try to measure our relationship in a much broader way, so that we do not get caught up in that kind of situation.

But there is something to it. If a country feels it has the same need or the same type of need and is performing reasonably well from the year before, they expect or hope to get the same level of assistance, and sometimes ask us if it is a reflection of political change if we change it.

We try, as I say, to see the relationship and to talk about the relationship in somewhat broader terms than that.

Senator SARBANES. We have a little more time, do we not, Madam Chairwoman?

Senator KASSEBAUM. Yes.

Senator SARBANES. Good. That leads me into my next line of questioning. So that you are not in any doubt as to where I am coming from, I want to preface it by remembering the story that Everett Dirksen told. "You know," he once said, "a million here, a million there, and after a while it starts adding up to real money."

Now, there are 15 countries for which you have made an MAP request in the current budget. Would you show me any one of those countries in which the MAP request this year is a decrease from the estimated in 1985? In other words, what it is assumed they will get in 1985?

Mr. LYMAN. I do not see any, frankly, but let me explain why not. We started some years ago with a very small military assistance program in Africa. It is still a concentrated and highly selective military assistance program. It is aimed at certain kinds of equipment support, certain kinds of mobility, communications, transportation kinds of equipment.

We think the levels we are asking for are appropriate to the mission and the task at hand. Our appropriation requests have been cut very sharply for MAP each year, so the fact that we have come back and asked for more is a reflection of the fact that we felt that our original requests were pretty close to what we needed and what the countries could use effectively.

Senator SARBANES. But the answer to the question is, in no instance with respect to military grant. In effect, the military grant received this year in every instance has served as a base floor for the request for next year. Is that correct?

Mr. LYMAN. No; as a matter of fact, we end up doing the 1986 budget before we get the final figures on 1985. It just happens that the final continuing resolution process comes after we have done our 1986 budget, so we have to look at the mission involved, the kinds of equipment in the pipeline, the maintenance costs for that equipment, and what it would take.

Senator SARBANES. I am not saying you necessarily took it as the base for it, but that in effect is what has happened. There is no instance in which you are asking for less MAP for the next year than a country is receiving this year, is there?

Mr. **Lyman**. Well, the Sudan program is down substantially from 1982. You are looking at from 1984 to 1986. But if you took Sudan from 1982 to now, you would find it at about half.

Senator **Sarbanes**. All right, if you want to go back, but in response to my question, is there an instance between 1985 and 1986?

Mr. **Lyman**. No, not between 1985 and 1986.

Senator **Sarbanes**. Well, let us turn to ESF. There are 17 countries there who receive ESF. With the exception of Zimbabwe, is there any country in which the ESF request is less than the ESF which they received or are receiving in the current year?

Mr. **Edelman**. I do not believe so, Senator.

Senator **Sarbanes**. All right. So you have 32 countries in ESF and MAP, and in one instance we get a decrease, which I think only underscores the point I was making at the outset, that these figures almost inevitably get built in as a base.

Mr. **Lyman**. Senator, may I comment on that? Let us talk about the economic situation. We have had now 2 hours of describing a continent that is in a major economic crisis and is the poorest continent in the world.

It is the continent the World Bank has urged donors to do more on. It is a continent to which the World Bank is now giving its priority. It is a continent to which we have come late, relative to what we have done in Asia and Latin America in the past.

To say that these figures, because they are rising, are somehow based on some arbitrary numbers game is wrong.

Senator **Sarbanes**. Well, now, is not development assistance going up? Let us accept the premise of your response, that this is a continent in need, facing serious and pressing development problems. By how much is your development assistance increasing between 1985 and the 1986 request?

Mr. **Edelman**. In total by about 1 percent.

Senator **Sarbanes**. One percent. Now, how much is it increasing in ESF—about which, as you well know, there is considerable disagreement as to how much constitutes economic development and how much is used for more political or security purposes? How much is the ESF going up?

Mr. **Edelman**. About 10 percent.

Senator **Sarbanes**. How much is the military grant going up?

Mr. **Lyman**. Military grant is going up about 25 percent.

Senator **Sarbanes**. Twenty-eight percent.

Mr. **Lyman**. Senator, may I challenge you, if you will, on the ESF, because I think there is a terrible misunderstanding. When the World Bank's report year after year has said to the donors, and we have talked about mistakes that donors have made, is that donors will not give assistance in flexible ways, in a non-project way, and that is what Africa needs the most.

We have responded on that through the ESF program, and it was Congress that shifted our economic reform program from development assistance, as we requested it, into the economic support column, so we accepted that this year.

Senator **Sarbanes**. I have already indicated that with the ESF, one has to engage in an analysis in each instance to see where it is going and how it is being used before making a judgment whether the ESF is applied to these economic problems you outlined or used quasi-security purposes.

What is clear in this budget is that the largest increases in percentage terms are in the military grant program. Now, I want to go through that program. I am back to Senator Dirksen. A million here and a million there, and before long, it amounts to real money.

Let met just take a few of them. Liberia got $12 million in 1984, $12 million in 1985, and this year you want to give it $13 million. Now, what is happening there? What is the extraordinary circumstance that going up $1 million?

We need this $1 million here. We want to keep Amtrak moving. We do not want to cut the school lunch programs, and some of our senior citizens are getting hit by the Medicare cuts, and they will not be able to get medical assistance.

I think we are down to fine tooth combing these budgets. What is there in the Liberian situation now that argues for $1 million? You had them at $12 million, then at $12 million, and now $13 million. What would we lose if we did not stay at $12 million again, let alone whether it ought to go to $10 million, perhaps.

Mr. Lyman. Senator, let me also just say that we also think that money is real money, and we treat it very seriously. We try to look at U.S. interests in these countries in coming up with these budgets.

The Liberia case is a valuable one, because we went out with teams to analyze that military, which as you recall in a condition of rather wretched living conditions took over the Government of Liberia in 1981, and when people went there and asked why, they showed the wretched housing that they were living in and the wretched conditions in which the military force of Liberia had been living.

We have engaged with them in a multiyear program, much of it to help them rebuild housing for military, very simple kinds of housing rather than the terrible shacks in which they were living. We have encouraged the military to go back to their military role, and the Government has announced a plan for elections this year which will return Liberia to civilian rule.

We are assisting the military to engage in roadbuilding capacity and in other civic action activities. Now, what we have not been able to do in the last 2 or 3 years because of budget limitations is provide them some of the equipment that our own advisors said they needed to do this.

We have, frankly, requested internally $15 million in each of those years. It has been cut back for budget reasons. This year we are trying to get some of that civic action type of equipment to the military and transportation equipment so that they will continue this process, feel they have a place in the country, and will support the return to constitutional rule. We think that is a good investment.

Senator Sarbanes. I am not for the moment arguing about the $12 million. That is a different issue that we can address some other day. I am now just focusing on the question how, in the current context, you can take them from $12 million to $13 million.

Mr. LYMAN. We asked for more last year and did not get it. We felt we should ask for $13 million this year, because we felt it was needed.

Now, Congress in its wisdom last year did not provide us the assistance we requested in this field. And it may not again this year. But we feel that we should ask for the levels of assistance that we think are related to our interests, and that is the number we have come to in every single case.

They have not all gone up. We were cut very badly last year in these programs. The MAP was cut more percentagewise than the development assistance, so it is not surprising that the percentages play the way they do, because the Congress has cut it.

But we have come back with recommendations that we feel meet the requirements. I can tell you if you do delve into these programs, if you look at the equipment and the types of support that we are giving, let us say, to a country like Somalia, which is facing a $3 billion Soviet assistance program in Ethiopia, these are modest levels.

Now, they are not modest in the sense that money is real and it is important. I do not deny that. But when you are talking about countries whose security is at stake, then you are talking about relatively moderate amounts of money, and we are trying to do the best we can within the budgets that we have. But some of these countries face important threats, and the amount of assistance that we are giving them on the military side is very modest relative to what they are facing.

Senator SARBANES. In 1984, you had $119 million for military grant. In 1985, it went to $148 million. The 1986 request is $189 million. That is a jump in just over 2 years of $70 million. Seventy million dollars is not peanuts.

Mr. LYMAN. I agree.

Senator SARBANES. Suppose the military grant were frozen at the 1985 level. You would not be able to do all that you would want to do, but where would that create a particularly pressing problem?

Mr. LYMAN. Given the fact that most of the country programs are quite small, if you took $35 million out of it, then what you would have to do is take a fair amount of that out of the principal programs which are in the Horn of Africa, Sudan, Somalia, and Kenya.

We feel that the Sudan program is now at a point that we are providing them just barely enough to maintain their equipment and their mobility. That is certainly true in the Somalia case.

If we are taking cuts of the kind you talk about, they clearly will not have the levels of support needed to maintain equipment, move around, be able to detect threats as quickly as they should.

This is an area where cross-border raids are frequent. What we have said to the Somalia Government is, you need a defensive capability, not an offensive one. But that requires quick reaction time. They are outnumbered. They are outgunned. They are outfinanced. They need quick reaction time.

If we cut back on the levels of assistance, they will not have that degree of quick reaction time.

Senator SARBANES. I know, but you are jumping, you are taking Sudan from $45 million to almost $60 million. They have been at

$45 million for 2 successive years. You are going to jump them to $60 million. You are jumping Somalia from $33 million to $40 million. That then becomes the operating figure in the subsequent year.

How am I going to justify these jumps to my constituents when the administration at the same time is not freezing their program levels, but is slashing them?

Mr. **Lyman**. Senator, I would justify those programs in terms of the fact that the countries to which they are directed are countries that are targets of aggression, heavily financed——

Senator **Sarbanes**. What about Zaire? It jumped by 50 percent for Zaire. What are the grounds for doing that?

Mr. **Lyman**. This is a program that Congress has put limitations on, ceilings on, where the levels are below what our Air Force has recommended year after year after year for maintaining the transport and communications programs that we support.

This is a country that is one of the largest of Africa. This is a program that we do in conjunction with the Belgians and the French, but we do not put in our share, and we are trying to do quite a bit with relatively small amounts of money. We use expertise just like AID uses expertise to analyze the requirements of maintaining equipment, of being able to move around.

This is a country that has been invaded twice in the last ten years. This is one of the most important countries to the stability of central Africa. We have a very, very modest program for a country of that importance.

Senator **Sarbanes**. Would you say that $10.5 million is really inadequate for what we ought to be doing?

Mr. **Lyman**. I think it is minimum.

Senator **Sarbanes**. Pardon?

Mr. **Lyman**. That is minimum. That is what our military advisors tell us. It is inadequate for what we should be doing to maintain that C-130 capability.

Senator **Sarbanes**. That is right, and if it is $10.5 million this year, what do you think it ought to be the following year?

Mr. **Lyman**. Well, we have recommendations in the report that if I recall correctly was something like a backlog of requirements of some tens of millions of dollars. We just have not programmed that.

Senator **Sarbanes**. When do you expect to adjust your programming to the fiscal realities that we are living with?

Mr. **Lyman**. But we do, Senator. I have just said that we did not try in the reports that were made on Zaire to fund the shortfalls that our Air Force felt were necessary. We have tried to make modest inputs to a very diverse security situation over an entire continent.

Senator **Sarbanes**. Tell me why Gabon is being put on line for $5 million FMS.

Mr. **Lyman**. Gabon is a sales program. It is a nonconcessional sales program.

Senator **Sarbanes**. Why is it being brought on?

Mr. **Lyman**. It is a country that likes to buy military equipment from the United States. It prefers to work through the FMS channel. It is a country of stability, a country trying to play a role in bringing about peace in Chad. It is a good friend to the United States.

It has played an important role over the years. It wants to make use of the FMS channels for purchasing its military assistance. We are not proposing it on a concessional basis.

Senator **SARBANES**. In Kenya, you have gone from $12 million to $25 million in 2 years, right?

Mr. **LYMAN**. Yes.

Senator **SARBANES**. In military grant?

Mr. **LYMAN**. Yes.

Senator **SARBANES**. What is the thinking there?

Mr. **LYMAN**. The primary effort in Kenya is air defense. It happens to be expensive material.

Senator **SARBANES**. Did the Kenyans just make a major commitment to acquire Naval craft from the British?

Mr. **LYMAN**. Yes, they did.

Senator **SARBANES**. What did you think of that expenditure of money?

Mr. **LYMAN**. We thought it was a very sizable expenditure. You see, we shifted our own military assistance programs from loan to grant because we were very sensitive to the economic implications of military assistance programs.

Senator **SARBANES**. Did we think that expenditure was wise, given the nature of their security problems?

Mr. **LYMAN**. We thought it was going to put a great strain on the economy. Because we are not involved in coastal security, we did not do an analysis of the boats. We were not asked to do so.

Senator **SARBANES**. Well, there is some thinking it might not have been so wise, and yet we are doubling within 2 years the grant to Kenya. Kenya is an important country to us. I do not quarrel with that.

You talk about Africa's problems. That is your preface. But then when we look at where the money goes, we find a 1-percent increase in development assistance, 9 percent in ESF—where we have to argue about where it is going and how it is being used—28 percent in this Military Grant Program. I do not see us getting any help from you in dealing with the budget situation that we are confronted with.

Mr. **LYMAN**. If we are going to talk percentages, let us remember that 83 percent of this budget request is for economic assistance, not counting emergency food. As I said at the outset, that reflects our priorities in Africa. That does not mean that the 17 percent is not important.

When we had to fly AWACS into Sudan because it did not have an air defense, that was a very expensive proposition. We have security interests in this part of Africa.

Senator **SARBANES**. More expensive than providing them a full-fledged air defense?

Mr. **LYMAN**. Over time it would be.

Senator **SARBANES**. What do you mean, over time?

Mr. **LYMAN**. Over time, every time they were threatened with the kind of bombing that they were last year, it would become very expensive indeed.

Senator **SARBANES**. You mean if they had a continuous threat?

Mr. LYMAN. Yes. They face a continuous threat.

Senator SARBANES. We do not have a continuous AWACS there?

Mr. LYMAN. No, but we have to prove ourselves ready to respond.

Senator SARBANES. So you are going to cost it out on the basis of comparing it with what it would take to maintain an AWACS on a constant basis?

Mr. LYMAN. I am giving that as an illustration that we are responding to a security interest in the United States.

Senator SARBANES. I am pressing this because I am trying to find out the standards by which you put together these figures.

Mr. LYMAN. We do it on the basis of trying to provide a minimum kind of effective defensive capability. The alternatives are very expensive.

Senator SARBANES. We have a budget crisis that we are facing. We are facing the most pressing and difficult choices in a whole range of domestic areas, and what I am getting at in this line of questioning is that very little of that pressure seems to be reflected in your decisionmaking on these requests.

Mr. LYMAN. I am sorry, I cannot accept that. We have agonized over these figures. They are much below what most analysts feel these countries need for minimum security needs. They are certainly well below the requests that these countries have given to us repeatedly. We have indeed felt the budget pressure.

Senator SARBANES. Now, WHAT DOES THAT MEAN?

Mr. LYMAN. Well, the countries have analyzed their own defensive needs, but even our own analysts are recommending much more than this, and we have felt the budget pressures.

Senator SARBANES. I have another question. Is it your view that congressional decisions made year-to-year on the budget are simply to be ignored the subsequent year when you come back with your request figures.

Mr. LYMAN. We do not ignore them, Senator, but we do feel obligated to come back with what we think are in the interests of the United States.

Senator SARBANES. Does that imply, Mr. Lyman, that the congressional decisions were not made in the interests of the United States?

Mr. LYMAN. No; on the contrary, what I am saying is, we have to do our best analysis. That is the way the system works, and it is a great system. The administration puts forward the best recommendations it can make, and works closely with the Congress to work out the final budget. I have great respect for this system.

I think it is the greatest system in the world, and I think it works, and I have great respect for your views on this budget, and I do understand what you are saying about the budget pressures in the United States. We really do feel them. We are trying to be as sensitive to that, but we are also trying to be sensitive to American strategic interests.

We come up here with the best recommendation we can make, and we abide by what the Congress does with it.

Senator KASSEBAUM. Senator Sarbanes, I would just say that as a member of the Budget Committee, I am sympathetic to what you are saying, but I would also comment, and I know you join me in this, that Africa as a whole, in every budget that I have been involved in, really has a very small portion of the pie that is received for foreign aid.

I know it has been a concern to you as it has been to me, especially with earmarking, and when we start to make cuts it is frequently Africa programs that are cut. I do not quite know how we get around that.

We talk about it every year. But I think in the whole context of things, and I certainly agree with the line of questioning that you take, and we have to be cognizant of it, but it is frustrating to see how frequently Africa ends up at the low end of the totem pole.

Senator SARBANES. Madam Chairman, I do not really quarrel with that. I would just summarize it in this fashion. First of all, the pitch made when we come to Africa is the pressing economic situation. Most people are aware of that. And in fact the way we moved on the African relief bill, I think, reflected congressional sensitivity.

Yet the budget, once that pitch is made, becomes your starting point in approaching Africa. The budget we get is virtually straight-lined in the most highly relevant area, the development assistance area, with a somewhat larger increase in economic, and then a major jump in military aid.

It is very clear that you are just upping that base. It has gone from $119 million to $148 million, and now you propose to go to $189 million——

Mr. LYMAN. May I make one last comment on that?

Senator SARBANES [continuing]. In that base. It has jumped from year to year. On the other hand, you have a sensitive situation in Mozambique, and the possibility of their moving in a significant direction. Yet you are talking about going from $1 to $3 million.

I cannot believe that if you simply straight-line in most of these countries, that it is going to make a major difference in addressing their security needs. The additional money, in a way, is not all that significant, and you at least will avoid confronting us with an even higher base in subsequent years.

Mr. LYMAN. If I may make just one final comment——

Senator SARBANES. You have not cut one of them in the last year.

Mr. LYMAN. If I might say, Senator, we have shifted from loan to grant military assistance, so if you add FMS and the MAP, you have, going from 1984 to 1985, $147 to $159 million. The increase is not quite as sharp, because you are looking only at the grant level. We have dropped the loan level because of Africa's economic situation. So, it is those two together.

Now, there is an increase, but I think it is not quite as sharp as you are portraying it, because you are looking only at the grant, while we are making the shift from loan to grant.

Senator SARBANES. Now, in the process of doing that you are going to take Botswana up $1 million. Why are you doing that? I mean, I like Botswana. I think it is a good country. But in the process of doing that, you are going from $9 to $10 million combined MAP and FMS concessional for Botswana.

What is the situation in Botswana that requires us to put another $1 million into Botswana?

Mr. Lyman. Because, Senator, Botswana's ability to maintain its position in southern Africa depends on its ability to demonstrate that it can manage its borders. We are providing them some of the mobility to be able to do that. And that is very important to Botswana's political position as well as its security.

Senator Sarbanes. You have had them at $9 million over the last 2 or 3 years. Has their ability to do that deteriorated?

Mr. Lyman. We have not been able to finance the program that we have agreed with them they should have.

Senator Sarbanes. That is not the question I asked. Has their ability to do that deteriorated?

Mr. Lyman. It has not been put into place to the degree that it could be. And they have a serious problem in guarding their borders.

Senator Sarbanes. Well, has their ability to address that problem deteriorated?

Mr. Lyman. Their ability to address it, which is where we started, is not being addressed as rapidly because of that and they feel that that is an extremely important——

Senator Sarbanes. Mr. Lyman, none of these problems are being addressed as rapidly. On the domestic side, not only are we not going to address the problems as rapidly, but we are going to cease to address them in some of these areas.

Now, you gave them $9 million 2 years in a row. I have not heard a case made here that the situation has gotten worse. You are not getting as much as you would like to get, and of course you would like to get even more than $10 million if you thought there was a chance of getting it.

But why you should now go from $9 to $10 million there, from $12 to $13 million here, from $7 to $10.5 million there, from $1 to $2 million here, from $2 to $4 million there? I just do not see the justification for that.

Thank you, Madam Chairwoman.

Senator Kassebaum. I thank the witnesses very much. That concludes our hearing.

[Whereupon, at 12:47 p.m., the subcommittee adjourned, subject to the call of the Chair.]

SECURITY AND DEVELOPMENT ASSISTANCE (EUROPEAN AFFAIRS)

FRIDAY, MARCH 22, 1985

United States Senate,
Subcommittee on European Affairs of the
Committee on Foreign Relations,
Washington, DC.

The subcommittee met at 2:06 p.m., in room SD-419, Dirksen Senate Office Building, Hon. Larry Pressler (chairman of the subcommittee) presiding.

Present: Senators Pressler, Pell, and Sarbanes.

Senator **Pressler**. I do not see Mr. Burt, but perhaps we can go ahead with the public witnesses.

Mr. Haass, do you have a prepared statement?

Mr. **Haass**. Only Mr. Burt had a prepared statement. Then both of us were going to be available for your questions.

Senator **Pressler**. Does anyone know if he is on his way? We have three Senators who are waiting. Maybe we could start the hearing with the public witnesses, and if we do that would we lose Mr. Burt when he arrives? Who knows anything about Mr. Burt?

Mr. **Haass**. He obviously should have been here, and I expect that he will be here any minute. That was the understanding.

Senator **Pell**. I think we ought to go ahead with the public witnesses.

Senator **Pressler**. And then when Mr. Burt comes, perhaps we could stop.

Mr. **Haass**. Or, if you want the other alternative, I could begin with his statement.

Senator **Pressler**. I think it would be better to have Mr. Burt do that.

Senator **Pell**. Why don't we put the public witnesses forward with the understanding that when Mr. Burt arrives, we can go to him?

Senator **Pressler**. Yes. Let's bring the public witnesses forward with the understanding that they can then step aside when Mr. Burt arrives. That way we can get the hearing started.

The Chair now calls forward two public witnesses on the hearing of the European Affairs Subcommittee regarding assistance to southern Europe. Today the committee will be hearing testimony on the fiscal year 1986 foreign assistance levels proposed by the administration for southern Europe.

The request includes a slight increase overall from fiscal year 1985 levels.

Mr. Burt has arrived so we will reverse our plan, our substitute plan, and hear Mr. Burt.

Mr. Burt, we had temporarily replaced you with public witnesses, but now we will replace them with you. Let me continue with my opening statement.

In light of the tremendous budget constraints, we need to examine carefully these requests to ensure that they are consistent with American national interests. Initially, we will hear administration testimony from Richard Burt, Assistant Secretary of State for European Affairs, and also Richard Haass, the Deputy for Policy Planning in the European Bureau and the special Cyprus coordinator.

Following Mr. Burt's testimony and questions from members of the committee, we will hear from a panel of public witnesses. Let me also say that we will take written testimony. Several additional witnesses requested to testify, but we have determined to take written statements from them unless there is a need to hold a hearing on Monday. I know, for example, that Dean Loomis wanted to testify for the American Hellenic Institute. We will be happy to receive written testimony from him and others.

But for this afternoon, these four witnesses have been agreed upon.

So with that, I thank you very much for being here. I know you have been very busy, and without any further ado I shall call on you for your opening statement which you may want to summarize or give as you wish, and then we will have questions, unless any of my colleagues have an opening statement.

Senator Sarbanes.

Senator **Sarbanes**. No, I have no opening statement, thank you.

Senator **Pressler**. Please proceed.

STATEMENT OF HON. RICHARD R. BURT, ASSISTANT SECRETARY OF STATE FOR EUROPEAN AFFAIRS, ACCOMPANIED BY RICHARD HAASS, DEPUTY FOR POLICY PLANNING, BUREAU OF EUROPEAN AFFAIRS, DEPARTMENT OF STATE

Mr. **Burt**. Thank you, Senator.

Let me first apologize for arriving a little late. I am a type A personality and almost had a nervous breakdown getting up here from the State Department with red lights and the traffic. We seemed to hit every one of them. But I am glad I was able to make it in time for the hearing.

Let me congratulate you on your assumption of the chairmanship of this subcommittee, and I look forward to working very closely with you and the other members of the subcommittee when they are chosen.

We had a very good relationship with Senator Lugar and members of the former subcommittee, and I look forward to a close pattern of cooperation with you and the other Senators.

I have a written statement which I will submit for the record. I will make a few brief remarks to summarize that statement. And as you noted, I brought Richard Haass with me to answer any of the tough questions you might have.

Senator PRESSLER. They will all be tough. I guess he will be answering all of them then.

Mr. BURT. Yes.

The statement that I have submitted for the record covers Greece, Turkey, and Cyprus, only because I understood that that was the focus of your interest. But before I say a few remarks about the eastern Mediterranean, I would like to add a few words on Portugal and Spain.

Those two countries, together, of course, with Greece and Turkey, constitute the bulk of NATO's southern flank, and NATO's southern flank is an integral part of our European defense and defense in particular of the center region of Europe.

We think that the recent stories of Spain and Portugal are real success stories for American foreign policy. These countries have moved from dictatorial pasts to fully functioning democracies in recent years. Portugal is a firm and reliable U.S. ally. Spain is an old ally of the United States, but, of course, it is also NATO's newest member.

Our fiscal year 1986 request for Portugal will support Portuguese democracy. It will recognize that country's need for force modernization, and it will meet our commitment, the commitment we have made to Portugal to a rising trend in security assistance in connection with our recently negotiated base agreement.

Our request for Spain must make clear value of Spanish participation in NATO, and it also makes good our best efforts pledge to Spain in connection with our base agreement. For Portugal, we are requesting $80 million in ESF; $70 million in MAP; $65 million in FMS, with $35 million of that concessional aid; and finally, $3 million in international military education.

Senator PRESSLER. Just a minute. Where are those numbers? What page are you on?

Mr. BURT. This is just a brief summary, Mr. Chairman, of my written remarks.

Senator PRESSLER. Thank you.

Mr. BURT. For Spain, we are maintaining our best efforts commitment at $400 million in FMS, $12 million in ESF, and $3 million in IMET or military education.

I would now like briefly to turn to the eastern Mediterranean which of course is critical to both the United States and the NATO Alliance as a whole. Western Europe, the Warsaw Pact, the Middle East, and most major world shipping lanes all intersect in the eastern Mediterranean. The eastern Mediterranean is the cornerstone of NATO's southern flank which links the Atlantic to the Middle East and on into Southwest Asia.

So we really are talking about a zone of central geostrategic importance to the United States.

Greece and Turkey, of course, are key NATO allies in the eastern Mediterranean. In addition to the strategic significance of that area, Greece, Turkey, and, of course, Cyprus are highly important to the United States in their own right.

Let me just briefly discuss each of these countries. First, Turkey. Turkey's strategic location involves the Black Sea, the Mediterranean, and Southwest Asia. Turkey provides the United States access to important military facilities. Turkey, of course, has been called by some the only Islamic member of NATO. It has a unique role among NATO countries in the Middle East.

Turkey has made notable strides in recent years in the restoration of democracy. As you probably know, we will shortly have a visit to the United States by Turkey's new Prime Minister, Prime Minister Ozal. They have also made strides in the protection of human rights. We think they have made very impressive economic progress, ecomomic reforms in recent years. Their economy has become more productive, and it has become more competitive.

To do this, the Turks have undertaken some courageous and very difficult political reforms in the area of political and economic liberalization. The mix that we have proposed of concessional FMS, MAP, and ESF aid is designed to help Turkey militarily without hurting its still fragile economy.

Few countries in the world, Mr. Chairman, meet the criteria for an American foreign assistance program as well as Turkey. We urge congressional approval of our full aid request, without conditioning language on Cyprus which in our view, particularly in view of recent diplomatic efforts that the Turkish Government has promoted in working for a Cyprus settlement, would be one-sided, unfair, and counterproductive.

I would just like to make one last comment, and I am speaking here personally. I cannot think of any better expenditure of the United States national security dollar than security assistance to Turkey. I think it would be fair to say that in the view of both the State Department and the Defense Department, our security assistance to Turkey is as important as is the most vital defense programs in our defense budget.

Moving on to Greece, Greece is strategically located and important to the United States and to the NATO Alliance. Without Greece, NATO's southern flank would be split. We look at relations with Greece in a broader context of our own traditional friendship. It is a fellow democracy. We have a longstanding web of economic, social, cultural, and political ties.

We have had problems with Greece which I will detail in a moment, but there have been some accomplishments. We have been able to conclude a defense and economic cooperation agreement. We have naval visits which take place in Greece. We have ongoing discussions and negotiations with Greece covering different issues, and we recently concluded a new agreement covering civil aviation.

Unfortunately, Mr. Chairman, many of the positive aspects of the United States-Greek relationship are obscured by very serious problems in our relationship. Among them is the fact that Greece does not now participate in NATO exercises which weakens the NATO Alliance in this very strategic zone.

We have continuous rhetoric out of Athens which is highly irresponsible, which is critical of the role of the United States in the world. We have had rhetoric on issues like the KAL 007 airliner. It was suggested that that aircraft was a spy plane.

Greece has failed to support the NATO position, for example, on the imposition of martial law in Poland. The Greek Prime Minister has supported Soviet positions on many crucial arms control and security issues such as the establishment of a nuclear free zone in the Balkans. He has said, for example, that following the conclusion of the current base agreement with Greece, the United States will have to leave those bases.

And as I mentioned, there has been a general lack of support for alliance security policies, and there has been a very unsatisfactory record in the key field of antiterrorism which is very disturbing to us.

These differences are of great concern to us, Mr. Chairman. The Reagan adminstration wants better relations with Greece and we are working to that end. But we believe that the Greek Government must reciprocate. We think that there is always a temptation to retaliate for the differences and the irritations that exist in that relationship.

We think that there are important common interests between the United States people and the people of Greece, and that we should try not to take a short-term perspective on the United States-Greek relationship, but try to maintain a long-term relationship. We should not let the current Government of Greece and its policies drive a wedge between the basically strong and healthy relationship between the American people and the Greek people.

Thus, we believe our fiscal year 1986 request for Greece deserves support.

Finally, Mr. Chairman, on Cyprus we value our relationship with Cyprus. Achieving progress toward a settlement on Cyprus is a top priority for us, both because of humanitarian concerns, but also because Cyprus is a factor in Greek-Turkish tensions. We oppose measures by any party which obstructs movement toward a settlement, and we have publicly rebuked those who have taken such measures, and we also support strongly the U.N. Secretary General's ongoing efforts to help parties find a solution.

The summit meeting between President Kyprianou and Mr. Denktash last January unfortunately failed to reach an agreement, but as the Secretary General said at the time, the two sides are closer than they have been in many years. We are working very closely with Mr. Perez de Cuellar to ensure that this momentum that exists in the diplomatic discussions is not lost.

We have requested $3 million in ESF for scholarships for both Cypriot communities, and we think this is appropriate to the needs of the island. To provide some positive incentive for forward movement in the diplomatic process on Cyprus, the President, as you know, proposed last year a $250 million peace and reconstruction fund for use by the Cypriot people when a settlement is reached or when significant progress is made. That proposal is still valid, and we will request those funds if and when circumstances permit.

So, Mr. Chairman, we are a key juncture in our relationship with all three of these countries in the Eastern Mediterranean. We have the visit of the Turkish Prime Minister to the United States in April, which I think is the first visit by a Turkish Prime Minister in more than a decade.

We have Greek presidential and parliamentary elections which are getting underway, and we have this United Nations effort which is underway on Cyprus. So we are at a critical point in our relations with these countries.

The Greek-Turkish differences in the Aegean are of real concern. We and others are urging restraint and compromise. But we must ultimately recognize that it is up to Greece and Turkey to resolve these problems.

We look at the upcoming period in this area as a time of challenge, but also a time of opportunity. We will need a steady, balanced policy. Your advice and support for our request will be essential.

We look forward to trying to answer your questions, Mr. Chairman. Thank you.

[Mr. Burt's prepared statement follows:]

PREPARED STATEMENT OF HON. RICHARD R. BURT

I welcome the opportunity to talk with you today about U.S. policy with regard to Turkey, Greece and Cyprus. Let me start with a few remarks on the region as a whole.

Few areas of the world are as important to the United States as the Eastern Mediterranean. It is the point where Western Europe; the Warsaw Pact, including the Soviet Union; the Middle East; and the world's most important shipping lanes all intersect. It is in this part of the world where we have key ties to two most important allies, Greece and Turkey. These are ties which go back many, many years, and are reinforced by our partnership in the NATO Alliance.

The Eastern Mediterranean is the cornerstone of NATO's southern flank, which in turn serves as a bridge linking the Atlantic to the Middle East and Southwest Asia. As such, the Eastern Mediterranean is an integral part of Europe. Its defense is vital to Europe's defense. Greece and Turkey, together with their partners in the western alliance, are central to the defense of this region. It is an area of immediate security concern for both nations and for the NATO Alliance.

In addition to their unquestioned strategic significance, Greece, Turkey and Cyprus are highly important in their own right. I will discuss each in turn.

TURKEY

Let me describe for you briefly the variety of foreign policy and strategic interests the United States shares with Turkey. Turkey plays a critical role as the anchor of the southern flank of NATO. It defends one third of the border between NATO countries and the Warsaw Pact. It controls egress from the Black Sea into the Mediterranean and stands between the Soviet Union and the Middle East and astride the route of a possible Soviet thrust into Southwest Asia.

The United States has access to a variety of military facilities, including air bases and other installations that contribute directly to our national security, as well as to the defense of NATO. We have signed important military agreements in the past year, including a Co-Located Operating Base Agreement, involving improvement of bases in eastern Turkey, where both NATO and Turkey share an interest in maintaining an effective deterrence.

Turkey's close relations with key states in the Middle East enable it to play a unique role in that troubled region. We have an active and productive dialogue with Turkey on Middle East issues, based on our close bilateral relationship and shared interest in regional stability.

Over the past year, Turkey has made important strides in the consolidation of democratic institutions and in the protection of human rights. Municipal elections were held in March 1984, in which all legal political parties participated. Martial law has been progressively lifted from a majority of Turkish provinces. The government of Prime Minister Ozal has taken steps to eliminate abuses in Turkish prisons. Having assisted Turkey during the past, very difficult years, as it struggled to overcome political chaos and terrorism, it is important we continue to support the newly elected government as it strives to realize additional progress in this realm.

Equally impressive has been Turkey's progress in the economic sphere. With the support of international institutions and Turkey's friends, including the United States, the Turkish government has embarked on an unprecedented program of economic reform designed to increase the economy's productivity and competitiveness. While results to date have been substantial, the Turkish economy remains fragile and, in the short term, the success of the Government's economic policy will require continued external support. This year, repayment of the rescheduled external debt will add to the debt service burden. While we are asking for less Economic Support Funds (ESF) than in FY 85, we believe that the mix of ESF, Grant Military Assistance, and concessional FMS in our request will enable Turkey to continue its armed forces modernization program while not subjecting the Turkish economy to excessive strains.

Turkey maintains the second largest standing military force in the Alliance and devotes a higher proportion of its budget and GNP to defense than most other NATO members. However, to enable Turkey to meet its NATO missions, sustained, adequate levels of security assistance will be needed. The Turkish-American Defense and Economic Cooperation Agreement (DECA) commits the U.S. Government to best efforts to obtain adequate levels of security assistance for Turkey, a pledge that we and the Turkish Government take very seriously.

Our security assistance request is for $230 million in MAP, $345 million in concessional FMS loans, $210 million in FMS guarantees, $150 million in Economic Support Funds and $4 million in International Military Education and Training funds. The greater portion of these funds will be used for the modernization of the Turkish armed forces.

Security assistance, as Secretary Shultz has stated, is closely linked to our most fundamental foreign policy goals. In this regard, Turkey is a notable success story. Security assistance for Turkey not only furthers U.S. strategic defense and NATO objectives, but also provides aid to a country striving for democracy, economic liberalization and against terrorism. Few countries meet the criteria of our assistance program as fully as Turkey does. I urge Congressional approval of the entire Administration request, and without conditioning our assistance on Turkish actions on Cyprus. I firmly believe that the progress we have made in recent months on Cyprus would be jeopardized by one-sided, punitive measures directed against Turkey. Turkey played a constructive role leading to the January 17 Cyprus summit and it is important that she continue to do so.

GREECE

Greece is strategically important to the U.S. and NATO. It borders on three Communist countries and would block any Warsaw Pact thrust southward toward the Mediterranean through Thrace as well as joining with Turkey to resist any Soviet effort to seize control of the Dardanelles. At the same time, Greece is positioned to help control the sea and air lanes of the Eastern

Mediterranean, and is one of the countries controlling access to the Middle East. Without this key ally NATO's Southern flank would be split.

In addition to Greece's undoubted strategic significance, we consider Greek relations in the broader context of our traditional friendship. Greece is a friend as well as an ally. We are bound by a web of economic, social and political ties. As two of a small, select group of nations embracing democracy, we share the defense of our common values through NATO.

Despite our current problems with the Government of Greece, there are accomplishments on the other side of the ledger as well -- the conclusion of a base agreement which had not been possible under previous Greek Governments was a notable achievement. Implementation of that agreement, despite some strong points of friction, continues to go well in many areas. Sixth Fleet vessels regularly visit Athens and other Greek ports. We are currently negotiating for new agreements regarding our VOA transmitters in Greece and Status of Forces Arrangements. Discussions to expand economic and commercial ties are also underway. It is, indeed, a shame that the many positive aspects of U.S.-Greek relations become obscured in the face of our differences.

Unfortunately, the problems we have with Greece are serious. Greece is not participating in NATO exercises. The Greek Government regularly disassociates itself from the NATO consensus on intermediate range nuclear forces. And the Greek Government not only echoed the preposterous charge that Korean Air Lines 007 was on an espionage mission for the United States but questioned the legitimacy of support for solidarity in Poland. Despite conclusion of the base agreement, the Greek Government has made statements to the effect that American access to the facilities will terminate after the DECA has been in force for five years. In the vital area of anti-terrorism, we have also not been satisfied with the Greek Government's performance, and we hope for an improved dialogue in the future.

These and other differences with the policy of the Government of Greece are serious and highly bothersome. We will do our best to improve relations with Greece, but the Greek Government must do its part as well if there is to be progress. Nevertheless, we should resist the temptation to take punitive measures in return against the current Greek Government. Common interests between the United States and the American people with the people of Greece are too important for us to adopt a short term perspective. It is for this reason that our security assistance request for FY 1986, maintaining FMS funds at $500 million, deserves Congressional support.

CYPRUS

The United States places high value on its excellent relationship with the people and government of Cyprus. This relationship endures despite periodic differences between us regarding a solution to the continuing partition of the island between Greek and Turkish communities. This Administration places top priority on achieving progress towards a just and lasting Cyprus settlement. We remain totally committed to that goal. A divided Cyprus for us involves a pressing humanitarian issue, weakens allied defenses in a strategically important region and is one of the principal causes of the tension between two NATO allies, Greece and Turkey.

Thus we have compelling reasons to do all we can to promote a fair and final settlement for the two Cypriot communities. We also oppose measures which obstruct such a settlement. Currently, we are intensively involved in supporting the UN Secretary General's ongoing efforts to find a solution. Those efforts resulted last Fall in a series of "proximity" meetings under the good offices of the UN Secretary General which in turn led to the first summit meeting between the leaders of the two communities in nearly six years. Unfortunately the meeting failed to achieve a signed agreement. It did, however, as the Secretary General said, greatly narrow the gap between the sides. We are doing what we can in coordinating with Secretary General Perez de Cuellar and his staff to ensure that the process does move forward and the momentum generated since last August when the "proximity" talks began is not lost.

The $3 million in economic support funds we have requested for Cyprus as in the past will be applied to the existing Cyprus American Scholarship Program (CASP) which provides American university educations to young Cypriots of both communities.

Finally, in an effort to provide positive incentives for progress toward a Cyprus settlement, the President proposed last year a $250 million Cyprus Peace and Reconstruction Fund for use by the Cypriots when a settlement is reached or significant steps toward one are taken. I want to stress that this proposal is still valid, and a specific request for the authorization and appropriation of funds will be forwarded to the Congress should circumstances permit, as we all hope they will.

Mr. Chairman, we are at a key juncture with all three countries and important developments will be occurring in the near future. We are preparing for the first official visit to Washington in over a decade of a Turkish Head of Government, that of Prime Minister Ozal in early April. In Greece, presidential elections are currently being held with national legislative elections to come later in the year. On Cyprus, the UN Secretary General is, as I have said, working hard to restore momentum to the negotiating process. Finally, just as Greece and Turkey are essential to progress being made on Cyprus, so it also rests with them to resolve their differences in the Aegean and NATO which are of such concern. We and other allies can and do urge restraint and a spirit of compromise, but the ultimate responsibility lies with Greece and Turkey.

In short, we face a period filled with challenges and opportunities. The problems are many, but so are the chances of progress if we continue with a steady, balanced policy. In this endeavor, the advice and support of the Congress will be essential.

Senator PRESSLER. Thank you very much.

Is it agreeable that we have 15 minutes for our first round of questioning?

Senator SARBANES. We may not need that.

Senator PRESSLER. OK, fine.

First of all, let me ask some general questions. In World War I, Turkey was referred to as the poor man of Europe. It is not referred to in that way anymore. You said that Turkey was perhaps more qualified in more ways for United States assistance than many other countries.

Were you referring to their economic needs or to their responses? In your response you might comment on the reliability of our other allies in Southern Europe for certain defense things. For example, I understand that in October 1983, we were denied or reportedly denied use of bases for refueling some of our planes, at least as reported in the press.

What is it that makes Turkey, as you stated, perhaps the most qualified country for United States assistance?

Mr. BURT. Let me give you a strategic rationale, then give you a political rationale, and finally an economic rationale.

Strategically, I think it is true that the zone or the area of strategic competition and confrontation with the Soviet Union has tended to shift to the south in the last 10 or 15 years, away from the so-called NATO central front which divided Germany. Although, of course, that is still a crucial area, the volatility of political developments in the Middle East and the gulf, the dependence of the Western industrialized world on oil from the gulf, and the expansion of Soviet naval power and Soviet arm supplies into the Middle East and the gulf over the last 10 or 15 years—all have led that region which we now call Southwest Asia to emerge as what Zbigniew Brzezinski called a few years back a third strategic zone.

Turkey, by virtue of its geography, where it sits astride both important land routes and sea routes, is in the very center of this third strategic zone. It is a country that first of all borders on the Soviet Union. It is a country that borders on Syria, where the Soviets are establishing a very strong and growing military relationship with the Syrian Government, and we have Soviet military advisers and advanced Soviet military equipment.

It borders on Iraq, where Iraq is currently fighting with Iran in what is probably the biggest conventional war since World War II. And of course, Turkey sits astride the access and egress routes from the Black Sea into the Mediterranean by which the Soviet Navy is able to be a Mediterranean power.

So in a strategic sense, it is hard to find a piece of real estate that is more important to the defense of the free world than Turkey. Turkey, by being strong and by being capable of defending itself, can deter, can act as a deterrent against both Soviet military moves and other regional moves that could threaten our interests.

But by being weak and being a vacuum, as Turkey was or almost became 5 or 6 years ago, political chaos and economic collapse in Turkey could set off a sequence of events that could threaten our security.

That is the strategic argument. The political argument, Mr. Chairman, is that we have seen what I would say is almost an economic and political miracle in Turkey in the last 4 or 5 years. What we have seen is a return to civilian government, the reconstruction of democracy in Turkey, the formation of new political parties, local elections, municipal elections, national elections, a freely elected government with a Prime Minister who has sound pro-Western views and has taken some very courageous steps to reform Turkish politics and the Turkish economy.

The problem is that they have a long way to go. And you asked for some of those criteria. Let me just give you a few.

The good news about the Turkish economy is that in 1984, the GNP growth rate was 5.7 percent. The bad news is that the per capita income of Turkey is about $1,000. That is the lowest of any NATO country. It is less than half the per capita income of Greece, less than half the per capita income of Portugal.

Even though the Turkish Government has made a heroic effort to undertake an austerity program and to reform the Turkish economy, the average inflation rate in Turkey is over 50 percent per year. The unemployment rate is between 16 and 20 percent.

Now, these figures all show a major improvement over figures of last year or the year before. But as I was mentioning in my overview, we are talking about a very fragile process of recovery. We have the opportunity to build a strong, solid bulwark of Western institutions, of Western culture, and also a bridge, because it is an

Islamic country, a bridge to countries in the Middle East with Turkey.

If we blow this opportunity then I think that our security will directly suffer.

Senator **Pressler**. President Papandreou of Greece has made several statements which are disturbing to me. Maybe he makes them for domestic political reasons or maybe he really believes them. But I am told that Greece has become a sort of footnote country in the sense that every time there is an agreement in NATO, Greece insists on some kind of qualifier or caveat.

Why is that, from a U.S. foreign policy point of view? What is our judgment? Why does Mr. Papandreou make the kind of statements that he makes about the United States? Actually, he has not carried a lot of them out so far, has he?

Mr. **Burt**. I think he has carried out more of them than we would wish. You are correct about his statements. On May 10 in a speech to the PASOK party congress he labeled the United States "the metropolis of imperialism" and he called the Soviets "the friends of détente."

But to try to answer your question, Mr. Chairman, I do not have the slightest idea why he makes those statements.

Senator **Pressler**. Is it because of domestic political pressure? What would be your best judgment?

Mr. **Burt**. I am sorry, Mr. Chairman. If you ask me, I would be forced to speculate. I will tell you this: I do not buy the argument that he makes these statements purely because of domestic political pressure. I just do not understand why he does make these statements.

Senator **Pressler**. Regarding Cyprus, the administration proposes to continue its support of the U.N. forces in Cyprus, as I understand it. From time to time, the Greek Prime Minister has proposed that the Turkish and Greek forces be withdrawn and that the U.N. contingent be enlarged.

In light of the Turkish Cypriot declaration of independence, would the enlargement of the U.N. force be feasible? What has been the Turkish response to such proposals? And how many Turkish troops are there on Cyprus?

Mr. **Burt**. I am not aware of the Turkish response to those proposals. I think in our judgment those proposals are highly unrealistic.

We support the existing U.N. presence in Cyprus. We think it is a necessary presence to maintaining stability on the island. But I think we also believe, as do the parties, that the only way we are going to achieve the withdrawal of Turkish and Greek forces from Cyprus is through a negotiated settlement, and this is something we strongly support under the auspices of the U.N. Secretary General.

I think our best estimate of the number of Turkish forces on the island is between some 18,000 to 20,000.

[The following information was subsequently supplied for the record:]

U.N. TROOPS IN CYPRUS

We are unable to say with any accuracy what would be Turkey's response to an increase in U.N. troops in Cyprus. It would not appear, however, that the Government of Turkey or the Turkish Cypriots would accept U.N. troops as a total replacement for the Turkish troops presently in Northern Cyprus.

Senator **PRESSLER**. This is sort of a technical question and you might want to respond in writing. I am looking at the FMS credits for each of the countries in southern Europe. How do we transmit those to Turkey and Greece? Do we give them dollars to buy our military equipment or do we pay for the equipment here and have them take the equipment?

How do we actually handle that in an accounting manner? Is it handled differently in the countries of southern Europe?

Mr. **BURT**. Well, without confusing you or confusing ourselves, why do we not get you the precise answer in writing, Mr. Chairman.

Senator **PRESSLER**. Right, and how that differs from how we transmit our military assistance and our ESF, if there is a difference.

Mr. **BURT**. We will try to note those differences. I will only say now that obviously we do not treat Turkey or Greece differently from other countries that we grant FMS or ESF credits to. But we will get you that answer.

[The material referred to follows:]

After the FMS credits have been apportioned by OMB, the country signs a loan agreement with the U.S. Government through the Defense Security Assistance Agency (DSAA). DSAA then obligates the funds. The funds are then drawn from the loan to pay amounts due under approved FMS sales contracts.

The procedure for ESF funds is quite similar. The funds are apportioned by OMB and the country signs an agreement with the U.S. Government through the Agency for International Development (AID). The money is then drawn depending on the nature of the project. The country will usually request that AID disburse the funds. The money is disbursed if the agreed upon conditions have been met.

Senator **PRESSLER**. I note that for fiscal year 1986 there is a proposed increase for Turkey and holding Greece steady. And the increase in the military assistance program for Turkey, I guess that would more or less restore it, get it back to the fiscal year 1984 levels. Is that your objective? Is that a 10/7 objective?

How did you arrive at that?

Mr. **BURT**. We arrived at that through a weighing on the one hand of the military requirements and the economic problems of the countries in question, Mr. Chairman, and the fiscal constraints that we have to face in the preparation of our own budget.

Obviously, at the State Department we have a wish list of things we would like to do, but we cannot come forward with a request until the White House, and specifically the Office of Management and Budget, has agreed.

We do not, Mr. Chairman, believe that the 10/7 ratio is a rational or coherent way to make security assistance decisions with Greece and Turkey, and it has nothing to do with Greece or Turkey. It just simply is not a meaningful way of making decisions on security assistance year-in and year-out.

The President, of course, wants to have the flexibility to respond to changing circumstances in the area. One year, one country's economy may be stronger and thus less reliant on U.S. aid. In another year, another country may face a larger security threat.

We support the concept of the maintenance of a military balance in the region and we think there is a military balance in the region. But a 10/7 ratio on U.S. security assistance between Greece and Turkey we think has very little to do in the long run with the maintenance of a balance in the region.

So our budgeting request reflects our best estimates of what is required to meet the pressing military modernization requirements of Turkey and the necessary military modernization requirements of Greece. I will be quite blunt with you: I think that we could give Turkey more money than we are currently requesting and it could still be usefully used.

They have a gargantuan military modernization requirement. They are using World War II and Korean war vintage weapons.

Senator PRESSLER. On Portugal's line items, I note that the ESF funds increased by $40 million proposed for fiscal year 1985 and again for fiscal year 1986.

I have two questions. If Portugal is doing as well as you say, why do you propose that? Second, is that taken out of other parts of the aid budget or the European budget? Is there a shift of moneys from elsewhere to make up that $40 million, or is that just assumed to be an add-on?

Mr. BURT. I am sorry, Mr. Chairman. I will have to get you answers for the record.

There is a slight misunderstanding. We came prepared to talk about Greece, Turkey, and Cyprus. I had some opening remarks to make about Spain and Portugal, but we are really not prepared to go into the Portuguese and Spanish requests in great detail.

Senator PRESSLER. That is something that maybe you can answer for the record.

Mr. BURT. I apologize.

[The material referred to follows:]

ESF was increased by $40 million in FY 1985 to $80 million as part of our efforts to assist the Portuguese in their economic recovery program. The Portuguese economy has shown considerable improvement, due to the stringent economic austerity measures undertaken by the Portuguese Government and subsequently incorporated into an IMF standby agreement. However, Portugal's success on some economic fronts came at the expense of a serious recession and the economy suffers from a number of underlying weaknesses. Portgual now faces a major challenge in building on the success of short-term austerity measures by undertaking structural reforms, particularly in the public sector and public enterprises, so as to lay the basis for sustainable growth. We have maintained the FY 1986 level at $80 million to help Portugal in its effort to maintain economic stability.

Senator PRESSLER. My final question concerns Cyprus. You have $15 million for ESF for 1984, for 1985 you have $15 million, and for 1986 you have $3 million. Is that reflective of the total picture?

Mr. BURT. Well, the problem there, Mr. Chairman, is that year in and year out we request the $3 million and the Congress approves $15 million. And we have very rigorous criteria which we have to use in submitting budget requests. I mentioned the role of the OMB.

And the problem is that Cyprus, despite its very severe political problems, has done very well in economic terms. So we would like to request this $3 million, which as I mentioned goes mostly for this very important and useful scholarship program for Greek and Turkish Cypriot students here. But the Congress in its wisdom decides whether Cyprus should get $15 million.

Senator PRESSLER. OK, that is a very good answer.

I have a yellow light, so I will yield. Senator Pell.

Senator PELL. Thank you very much, Mr. Chairman.

What proportion of the Turkish troops are situated on the Soviet border as compared with those in Thrace on the Greek border?

Mr. BURT. I do not know if I can answer that question. I would say this, Senator—and I will try to submit to you an answer for the record, but I do not think that you should consider Turkey's border with the Soviet Union as the only axis from which the Soviet threat emanates. In fact, we have seen Soviet military exercises, very recent exercises in fact, where clearly the Soviet Union and its Warsaw Pact allies were planning to drive through the region of Thrace.

It is very much a Turkish military objective to stop such a Soviet attack. So Turkish military forces would not simply be useful in blunting a Soviet attack against Anatolia, but in protecting and defending against a march, a Soviet attack to the west, as well as in maintaining or keeping the Dardanelles open.

Senator PELL. This reminds me a little of some years ago, I remember asking that same question both of Greece and Bulgaria, where they considered their respective threats mostly came from. And Bulgaria was afraid of Greece in those days and Greece was afraid of Bulgaria.

Now it is a different situation. When you look at the map, as I was doing as you were talking, it would still seem to me that if one was concerned about the Soviet threat, if one was a Turk, you would have the predominance of your troops on that border and also, as you suggest, a portion of them against the Bulgarian border, a smaller portion.

At any rate, for the record would you submit to us the nearest estimate you can get of how those proportions work out.

Mr. BURT. I will, Senator.

But I think that maybe we should all put ourselves in Turkish shoes for a minute, and look and think a little bit about the situation that they confront. Here is a country that not only borders on the Soviet Union and other Warsaw Pact countries, but it faces a Soviet military buildup next door in Syria. It has to worry about the fact that another neighbor, Iraq, is fighting a full-scale war with Iran, which has implications for its own security and its border because of the Kurdish elements that have become more active along that border. And Turkey has this continuing confrontation with its neighbor to the west, Greece.

So I think the Turkish security picture is a very disturbing one. I think if any country in the world is able to make a case for encirclement, it is Turkey.

Senator PELL. All I am asking for is a map that would show where the troops are facing this threat of encirclement. I am just curious if you will find the predominant group of them on the Thrace side of the Anatolian shoreline or if there would be more in the Soviet direction. So if you would submit that for the record, I would be very appreciative indeed.

Mr. BURT. We will do our best, Senator.

Senator PELL. By the same token, what is sauce for the goose is sauce for the gander. I would like to see that for Greece, too. What portion faces the Turks, what portion of it for the other part?

[The material referred to follows:]

TURKISH MILITARY FORCE DEPLOYMENTS

Army: the 500,000-man Turkish Army is deployed to four field armies situated around the periphery of the country and two Interior Zone Commands in the central part of the country.

First Army in the northwest is the largest, containing 4 corps with about 10 divisions and some independent brigades. It faces Bulgaria and shares a common border with Greece, Turkey's NATO partner.

Second Army located along the southern part of Turkey has two corps facing Syria, Iraq, and Iran with several independent brigades but no full-sized divisions.

Third Army in eastern Turkey faces the USSR and has two corps with four infantry divisions and several separate brigades.

The fourth or Aegean Army is located in western Turkey along the coast of Aegean Sea. It has many training units and two infantry brigades.

Turkey has a separate corps on Cyprus with two infantry divisions.

Navy: The 45,000-man Turkish Navy is assigned to three major commands located on the Black Sea, the Turkish Straits, and the Mediterranean:

Straits Command is the largest and includes the main naval base at Golcuk. It defends the critical chokepoints of the Bosphorus and the Dardanelles. Most of the Navy's major surface ships (14 ex-U.S. WWII destroyers. 5 frigates) are homeported here along with many of the submarines (5 German Type-209 and 11 ex-U.S. WWII).

Black Sea command operates from a number of small bases along the Turkish Black Sea coasts and includes some submarines and many small missile patrol boats.

The Mediterranean Command with headquarters at Izmir contains likewise a large number of small patrol boats and landing craft but has no major ships regularly assigned.

Air Force: The 53,000-man Turkish Air Force has nearly 500 combat aircraft which are about evenly divided between two tactical air forces in the east and west of the country:

The First Tactical Air Force, operating west of the 35th meridian, contains 10 squadrons with about 250 aircraft, defending the Turkish Straits and First Army area. The Second Tactical Air Force operating east of the 35th meridian contains squadrons and about 220 aircraft, supporting all of the Third Army and part of Second Army against the Soviet Air Force.

GREEK MILITARY FORCE DEPLOYMENTS

Army: The 142,000-man Greek Army has 12 divisions organized in virtually fixed positions—and mostly consisting of dismounted infantry—in four corps and an independent division along the northern borders. The independent 8th Division faces Albania while the Yugoslav border is entrusted to the two weak, mostly reservist-manned "A" and "B" Corps. The higher priority "C" and "D" Corps further east face the Bulgarians. They also could be used against the Turks. Further garrisons are located on all of the Greek Aegean islands and one low-priority infantry division is on the island of Crete. Reserves include 350,000 first-line Army reservists and about 100,000 National Guard militia.

Navy: The Greek Navy of 19,500 is almost exclusively homeported at the Salmais Naval Base near Athens but is operates throughout the eastern Mediterranean, Aegean, Ionian and Adriatic Seas. The Navy has 10 submarines (including 8 modern Germany Type-209), 14 ex-US destroyers, 7 frigates (including 2 modern Dutch-type, 1 fairly new West German-type)and 27 modern guided-missile patrol ships. There are also modest but capable mine-warfare and amphibious flotillas. Despite emphasis on the single main naval base at Salamis, ships are regularly rotated in ones and two to all naval stations located along the coast and on the Aegean islands. The Greek Navy also operates the large NATO naval base at Soudha Bay, on Crete, with its NATO allies. In wartime the Navy could add about 24,000 reservists to its strength.

Air Force: The 23,500-man Greek Air Force has 287 combat aircraft in 7 combat wings comprising 6 fighter/ground-attack squadrons, 7 interceptor squadrons, and 2 fighter/air reconnaissance squadrons. A maritime patrol squadron with HU-16B Albatross aircraft operates with the Greek Navy while the transport wing has 3 squadrons equipped with C-130, C-47, YS-11, Noratlas and CL-215 aircraft. The combat aircraft are all reasonably modern and include U.S. A-78, F-104G, F4E along with numbers of aging F-5 fighters and about 36 French-made Mirage F-16 fighters. Most aircraft are based in Southern and eastern Greece but there is 1 squadron at Thessaloniki in the north and another on Lemnos Island in the Aegean. A large airbase at Soudha Bay near the naval facility house aircraft involved in naval-air operations such as the maritime patrol squadron.

Senator PELL. As I understand it, Greece will not get concessional rates and Turkey will get concessional rates?

Mr. BURT. That is correct.

Senator PELL. What is the rationale for that?

Mr. BURT. The rationale is just the strength of the two countries' economies.

Senator PELL. Is not the personal income higher in Greece than in Turkey? I mean higher in Turkey than in Greece?

Mr. BURT. No.

Mr. HAASS. The per capita income in Greece, depending on the latest dollar-drachma rates, would be somewhere between 3½ to 4 times as great as that in Turkey.

Mr. BURT. So they have a per capita income of almost $4,000.

Senator PELL. Let me move for a moment, if I may, to Cyprus. What would be the rough estimate you have, the figure of the Turkish military equipment in Cyprus at this time?

Mr. HAASS. Again, we would have to get you details for the record. What I could point out to you is that there are no terribly advanced systems there, and indeed we cannot track the movement of any significant numbers of advanced systems since the end of the embargo, for example.

Senator PELL. Well, let us look at it from another viewpoint. I think the accepted personnel figure is about 20,000 Turkish troops. I think we can agree on that. And I think we can agree that it is reasonable to assume, of course, Turkey needs $5,000 to $10,000 a year to maintain their forces there per head. Would that be correct, roughly?

Mr. HAASS. I am sorry?

Senator PELL. That it would cost between $5,000 and $10,000 per year per man to maintain a soldier in Cyprus?

Mr. HAASS. I do not think there would really be any incremental cost to maintaining a Turkish soldier on Cyprus as opposed to maintaining a Turkish soldier on the mainland.

Senator PELL. I could not agree with you more. I just wish they were on the mainland. But the cost of maintaining the soldier if he is or on the mainland or in Cyprus is about $5,000 to $10,000, would that not be a good horseback figure?

Mr. HAASS. Again, I do not see any distinction. I see what you are getting at, but I would have to get you a dollar estimate, which I think would be in a very different ballpark.

Senator PELL. Very well.

[The material referred to follows:]

We estimate there are some 20,000 troops maintained in Northern Cyprus by the Government of Turkey. We are unable to estimate the cost of maintaining those troops. We are not aware of any effect our assistance to Turkey has on their support for troops in northern Cyprus. We believe, however, the cost to Turkey of supporting troops in Cyprus is probably not much (if any) greater than supporting the same troops on the mainland.

Senator PELL. I think that would be fair. And that would translate into about $100 to $200 million a year that is being spent now to maintain the troops in Cyprus.

Mr. BURT. To maintain the troops, period, and not owing to their being in Cyprus.

Senator PELL. Well, to maintain the troops that are there. There are 20,000 there. And since aid to Turkey is $700 million this period, this would mean something like 15 to 20 percent of our aid, of the American taxpayer's dollar, is going to support the Cyprus occupation. Now where are those figures wrong?

Mr. BURT. Where the figures are wrong is, to be able to make that case, Senator, you would have to argue that were the Turks to move those troops off Cyprus they would then demobilize those forces. I think there is very little evidence to suggest that.

It is very similar to the arguments that are made year in and year out by people who say what the cost of removing U.S. troops from Europe would be. When you do the statistics and you show that if you are going to remove those troops from Europe and deploy them somewhere else, whether it is Kansas or the Far East, you find that you do not save any money by moving those troops.

Senator PELL. I think I may have expressed my question clumsily. What I am driving at is, between 15 to 30 percent of our aid dollars is at this point being utilized by the Turks for the occupation troops in Cyprus.

Mr. BURT. There is no evidence to suggest that. We know what our money is being spent for. We know what our FMS is going for. We do not give the Turkish Government a blank check. We do not give them a check. We know what they are spending that money on.

They are using that money for military modernization needs which have to do with the direct defense of Turkey against the Soviet Union and the Warsaw Pact. For example, much, if not almost all, of the FMS, concessional FMS amounts that are going to Turkey will go for the F-16 program. There are no F-16's on Cyprus and there will be no F-16's on Cyprus.

Senator PELL. Right. But if I give a person $10 and he puts $5 in one pocket and $5 in another, it is still $10 and he makes the decision. What I am driving at here is, it seems to me that I am correct that $100 to $200 million per year is the approximate cost of the occupation there, and that is about 15 to 30 percent of our aid. And I think those figures are reasonably solid.

Mr. BURT. It is our view, Senator, that the Turkish Government would keep its forces on Cyprus regardless of what we did with aid. I think that is very strongly backed up by the fact that when there was an aid embargo——

Senator PELL. I think you are now attacking a straw man. I did not say that they would move their troops or not move their troops. I just said that the cost to the American taxpayer of the occupation there is this amount.

Mr. BURT. I just cannot accept that. I think we can show you and we can submit for the record where American money, where American security assistance, concessional credits go. None of that money goes for the maintenance of troops on Cyprus.

Senator PELL. No, but it releases Turkish funds to go to Cyprus.

Anyway, for the record show me where I am wrong in saying that the cost of the occupation is between $100 and $200 million, and that is about 15 to 30 percent of the dollar amount of our total aid package, and where I am wrong. I would be very glad to know.

Mr. BURT. Yes, sir.

[The material referred to follows:]

Question. What is the cost to Turkey of maintaining its forces on Cyprus?

Answer. Since the infrastructure for supporting Turkish forces on Cyprus is alreadv established, there is no reason to believe that the cost to Turkey of maintaining troops on Cyprus is measurably greater than that of maintaining the same troops on the mainland. There are additional costs associated with trasnporting men and equipment to Cyprus, but these costs are not substantial.

Senator PELL. Now, in connection with the Cyprus occupation again, the $3 million that have been used for educational purposes, which we raised, as you know, to $15 million—it was an amendment of mine—is it the presumption of the Department always—and this was under President Carter, too, I think—that you offer a lower figure and we raise it automatically?

Mr. BURT. No. We, as you know, have held out a big carrot, $250 million, which should go a long way, I think, in the context of a settlement on the island, to meeting many of the economic development needs. But we think that $3 million, given the current economic situation on Cyprus and given the relative requirements elsewhere, is a fair amount.

Senator PELL. You do not think that the larger amount can be usefully spent on educational purposes, as it has been for the last several years?

Mr. BURT. In an environment of fiscal constraint here at home, Senator, no.

Senator PELL. Well, I must say I can see what is happening to education at home, too.

I would like to turn for a moment to Portugal and ask you this. In connection with the new mutual defense agreement covering our use of the facilities in the Azores, what portion of that amount of the assistance request would be allocated to the Azores?

Mr. BURT. I will have to give you an exact figure for the record, Senator.

Senator PELL. Do you remember the approximate figure?

Mr. BURT. I can tell you that the answer is a substantial portion.

Senator PELL. A half, a quarter? Would you want to hazard a guess?

Mr. BURT. No, I would not. I have to apologize to you, as I did to the chairman. We were under the understanding that we were going to be talking about the eastern Mediterranean. We will answer that for the record.

[The material referred to follows:]

In FY 1985 the Portuguese Government gave $40 million of the total $80 million of ESF to the Azores. The Portuguese Government will likely choose again in FY 1986 to divide the escudo equivalent of the ESF equally between the Azores and the mainland.

Mr. Burt. Again, I do apologize.

Senator **Pell**. Thank you.

Thank you, Mr. Chairman.

Senator **Pressler**. Senator Sarbanes.

Senator **Sarbanes**. Thank you, Mr. Chairman.

Secretary Burt and Mr. Haass, welcome to the committee. I have one question, again on Spain and Portugal. We came to this hearing on one premise and you came on a different premise, but I think this may be a question you can answer even without information at your fingertips.

As I understand it, this year all of the countries in your region received straight FMS on deferred payment terms. I think that is true of Portugal, Spain, Greece, and Turkey; is that correct?

Mr. **Burt**. Yes.

Senator **Sarbanes**. But in the submission which the administration has made for next year, you carry forward that deferred payment approach with respect to all of those countries except Spain, and they are dropped from the list. I wondered whether that was an oversight, or something.

Mr. **Haass**. Senator, it was not an oversight. Spain also gets extended repayment terms. What was different between Spain and the other three countries is the period of grace, and then the period of repayment to follow. For the three countries, Greece, Turkey, and Portugal, that you group together, it is my understanding they are to receive repayment terms of a 10-year grace period followed by a 20-year extended repayment.

I do not have the specific numbers for Spain, but it is less than that in the administration request.

[The following information was subsequently supplied for the record:]

GREECE/REPAYMENT TERMS ON FMS CREDITS

Greece, Portugal, and Turkey are on the list of countries which receive, for an indefinite period of time, 10/20 grace/repayment terms on their FMS credits. In the FY 1985 Continuing Resolution Congress took the initiative of giving Spain the option of 10/20 terms for FY 1985 FMS credits, with the condition "as long as Spain remains a member of NATO." The Administration has not supported 10/20 terms for Spain for economic reasons. While Spain is pursuing an ambitious military modernization program despite a strict economic austerity program, Spain's short-term economic problems are less severe than those of the other European countries which receive FMS credits. The Spanish Government has formally requested our support for 10/20 terms. While we would not actively oppose such terms, if granted by Congress, neither would we actively support them. We believe that in the long term, 10/20 terms burden recipients with extremely high total interest payments and that this burden is only justified in the case of countries which have severe short term economic problems.

Senator **Sarbanes**. In the request. In the current year, though, the terms are the same for all four, are they not?

Mr. **Haass**. Yes, sir. Congress made it that way last year, sir.

Senator **Sarbanes**. What is the difficulty with treating all four of them the same way on the deferred payment terms?

Mr. **Haass**. I do not think there is a major difficulty. I think just again it was an economic assessment on comparative ability to repay.

Senator **Sarbanes**. There is going to be a referendum in Spain about a year's time on the NATO question. Is that correct?

Mr. **Burt**. That is correct, Senator.

Senator SARBANES. It will be put to the people for a vote?

Mr. BURT. That is our understanding of Prime Minister Gonzales' current plan. We do not know precisely what form that referendum would take or just exactly what question would even be asked. The device of a referendum has been put off by the Prime Minister since he assumed office. But yes, we assume such a referendum will take place at some point.

Senator SARBANES. The government itself has to stand for election before the end of 1986, does it not?

Mr. BURT. Yes.

Senator SARBANES. So there is an actual political election for the parliament, I think, by the fall of 1986, is that correct?

Mr. BURT. I am not sure if it is the fall of 1986.

Senator SARBANES. I think it is. I would be subject to correction. It just seems to me that we have an awful lot of variations on all these various FMS arrangements, particularly now that there is so much concessionality at work as well.

And it does seem to me that it probably makes some sense to have comparable provisions for those four countries on the deferred payment terms, leaving aside the other problems. I take it from your response that that does not create any substantial difficulties for the administration?

Mr. BURT. Well, I would want to be a little bit careful here. I think Spain does have a somewhat stronger economy than the other three countries, and I would assume there was an economic, as Mr. Haass pointed out, rationale for this. We will submit to you a thoughtful response to this, and if there are some problems we will let you know so that you can consider those problems as you make your own decision, Senator.

Senator SARBANES. If that referendum does take place in a year, we would be very much concerned with the outcome of it, I would take it?

Mr. BURT. Well, we would. Our position has been very clear, that we support Spain's continuing membership in the NATO alliance.

I would point out, though, that we have negotiated in our own bilateral security relationship with Spain, and that the best efforts pledge which we have made in the security assistance area is predicated on our bilateral security relationship with Spain, not its NATO membership. Nevertheless, we think it is very important that Spain remain a member of the alliance and are working very hard to achieve that end, keeping in mind, if I could just add this, that it is in the final analysis a decision for the Spaniards to take.

Senator SARBANES. Absolutely.

Let me address the distinction you made, because in the Spanish context, although I think it also has application elsewhere, you have been very careful to make this distinction between the NATO relationship and the U.S. bilateral relationship.

From the perception of the countries involved, and particularly from the perception of their public—take Spain for an example, or take some other country, for that matter—do you not think they tend to believe that the state of the relationship in one has an effect on the relationship in the other category?

Mr. BURT. I think that generally speaking that is true, and clearly in the case of Turkey, and I would also say Portugal and even

Greece, that the idea of alliance membership is certainly compatible with and reinforces the issue of a strong U.S. security tie.

Spain, though, is perhaps a little bit different, and the reason it is a little bit different is that Spain has had since the 1950's a bilateral security relationship with the United States. We were allied to Spain. We had a close military supply relationship, and we have had a military presence in Spain.

At the same time, Spain was not a member of the alliance and was pretty much isolated, not only from NATO but from numerous European political institutions, like the European Community. So I think there is something of a distinction in the Spanish mind between the U.S. security relationship and NATO membership.

I am not arguing that that is necessarily good or necessarily bad. It is just a fact of life in dealing with the Spanish situation. As time goes on, as Spain becomes much more of an integrated member of the Western European community, the Economic Community [EEC], assuming that they accede along with Portugal into the Common Market and they remain in NATO, I think there will be the kind of compatibilities in the security relationship that we see with the other three countries.

[The following information was subsequently supplied for the record:]

Prime Minister Gonzalez has stated that his intention is to hold a public referendum on the NAtO issue in early 1986. Under Spanish election law, the next parliamentary elections will be held in November or December 1986, although the Prime Minister may also call early elections if he chooses.

Senator **Sarbanes**. Do you have anything to report to us on the de Cuellar talks, the most recent talks with respect to the Cyprus situation?

Mr. **Burt**. Yes. Mr. Haass, who monitors those quite closely, is the special Cyprus coordinator.

Mr. **Haass**. As you know, Senator, the New York summit broke up on January 20.

Senator **Sarbanes**. But there have been talks in Geneva just recently.

Mr. **Haass**. Exactly. In Geneva the Secretary General met with President Kyprianou. I should also point out that Vice President Bush also met with President Kyprianou at around the same time.

Since then, there have been subsequent talks in New York. And at the moment, that is exactly where we stand, trying to revive things from where they stood right after the New York summit and then the Geneva talks more recently.

Senator **Sarbanes**. Mr. Burt, as I understand the administration's position on the peace and reconstruction fund from your statement, you stand committed, if developments occur with respect to a settlement, to submit a separate specific request for the authorization and appropriation?

Mr. **Burt**. That is correct.

Senator **Sarbanes**. It is not contained in your current request?

Mr. **Burt**. It is not contained in the current request.

Senator **Sarbanes**. But you are undertaking, in effect, to make a commitment to submit such a request?

Mr. **Burt**. Yes.

Senator **Sarbanes**. You spoke about the Turkish need to modernize its forces. Earlier you discussed your view of the 10 to 7 ratio and then also made reference to the budget constraints within which we are operating now. Minus those constraints, what is the administration's evaluation of the amount of military assistance Turkey should be receiving annually?

Mr. **Burt**. Senator, it is difficult, I think, to give you an exact figure. I have heard my colleague, Mr. Perle, testify before the committee, arguing that they could absorb an additional $100 to $200 million.

Senator **Sarbanes**. I have seen Mr. Perle's testimony and his, as I understand it, was $1.5 billion a year over 10 years.

Mr. **Burt**. I think somewhere between $1.2 to $1.5 billion would be, I think, in just maximum terms, what their military requirements are.

Senator **Sarbanes**. Does that reflect your view, the State Department's view, as well as Mr. Perle's view?

Mr. **Burt**. Yes. There is no disagreement with the Pentagon on this subject.

Senator **Sarbanes**. So, if circumstances would permit it, you would like to take the Turkish military package to between $1.2 and $1.5 billion a year over at least a decade?

Mr. **Burt**. Well, if we are talking purely about Turkish military requirements, if we are not talking about the financial restraints here or possibly competing requirements with other countries, we are talking purely about what is necessary to modernize their military, then the answer is yes, we are talking about those kinds of figures.

Senator **Sarbanes**. Now, in response to Senator Pell, you also talked about Turkey's facing a problem of encirclement in the security threats. You pointed out that a threat exists not only on the Soviet border, but you made reference to Syria, to the Iran-Iraq conflict, and also to the security threat from Greece, is that correct?

Mr. **Burt**. What I was suggesting is that they live in a very volatile and troubled neighborhood. I was not suggesting that they necessarily faced threats from all of those dimensions. We do not believe that Turkey threatens Greece, nor do we believe that Greece threatens Turkey.

Senator **Sarbanes**. Do you think they believe that they are threatened, one by the other? Not what we believe, not what you believe, but do you think they believe that they are threatened?

Mr. **Burt**. Yes; I think if you are a military planner in Athens or Ankara and you are aware of history, then you have to take those potential threats into account.

Senator **Sarbanes**. You talked about the role that Turkey could play and the need to strengthen it. Do you envision over time that the role once foreseen for the Shah and Iran in the region could be played by Turkey if its military strength were modernized along the lines of the program that Mr. Perle and now you have indicated?

Mr. **Burt**. The answer to that question is no. We are not nominating Turkey as a regional policeman. That is why I was very careful when I earlier talked about the difference between a strong, confident and secure Turkey and a weak, insecure Turkey.

All we want Turkey to be able to do is be capable of protecting her own territory. We do not want or expect Turkey to play any regional role beyond the regional role it chooses to play.

What we are trying to do with our military modernization efforts and Security Assistance Program is give Turkey the capacity to credibly deter an attack against its own territory. We see some very important benefits flowing just simply from establishing that capability.

The Soviet Union, if it knows that Turkey is capable of protecting itself, is by definition going to be more careful in its activities throughout the whole region. Other groups, whether they are in Syria or other parts of the Middle East, are going to be more careful.

We think that a strong pro-Western Turkey that is able to defend itself is obviously and importantly in the interest of the United States.

Senator **Sarbanes**. Has there been an instance in which the Turkish control of the Dardanelles and therefore the access of the Soviet fleet from the Black Sea to the Mediterranean has been exercised in order to deny such access?

Mr. **Burt**. To my knowledge, the answer is no.

Senator **Sarbanes**. That is what the answer is to my knowledge, but I just wanted to be more certain.

Mr. **Burt**. Here we are back into the hypothetical world that military planners have to inhabit. For the Soviet Union the question is not so much did the Turks last week cut off our access to the Mediterranean or how likely are they in a crisis situation to do it.

The issue for the military planner in the Kremlin is, do they have the capability to do it? Because in doing any kind of worst case analysis—and I think the Soviets engage in that analysis, just like any other military planner would—they are going to pay attention to that capability. And the very fact that there is a strong, secure Turkey with close ties to the United States is going to be, I think, taken into account in Soviet military planning.

In other words, Senator, even though the Turks may have never exercised that capability, the Soviet Union cannot rule out the possibility that they will not.

Senator **Sarbanes**. Is Turkey a major recipient of economic assistance from the Soviet Union?

Mr. **Burt**. I know there is some or has been some economic assistance, but I would say that nobody is a major recipient of Soviet economic assistance, because the Soviets do not give anybody very much economic assistance.

Senator **Sarbanes**. Could you give us something for the record?

Mr. **Burt**. We will, for the record, give you what economic assistance agreements there are. I think there have been some industrial projects that the Soviet Union has aided.

[The material referred to follows:]

The Soviet Union provides aid to Turkey in the form of project credits and technical assistance. At present the U.S.S.R. provides technical assistance to the Iskenderun Steel Mill, the KROMSAN chrome plant, Orhaneli thermal power plant, the

Aliaga oil refinery, the Seydisehir Aluminum factory, and the Arpacay Dam. This year the U.S.S.R. agreed to assist Turkey in increasing the capacity of the steel mill and oil refinery mentioned above and to help construct a hydrogen-peroxide facility, a factory for prefabricated construction materials, and a thermal power plant.

Senator **Sarbanes**. What role do you see the United States playing in trying to resolve the disputes? What role, if any, do you see the United States playing in trying to resolve the disputes between Turkey and Greece over the Aegean questions?

Mr. **Burt**. Let me make a few general remarks and maybe Mr. Haass might like to add to them. I do not think, as I mentioned in my statement, that the United States should in any way try to impose a settlement on the two sides. As you know, those disputes, both on the territorial boundaries as well as the air traffic, are extremely complex and they have very complicated histories.

I once requested a briefing on these disputes, and after an hour or so was almost more confused when the briefing was over than when I began. A good lawyer can make a good case for both sides in these disputes.

I think it would be a mistake for the United States to try to define the problems in the Aegean as U.S. foreign policy problems. They certainly affect our foreign policy and they affect our security, but we should not necessarily say that we have to find a solution to them.

What I think we can do as friends and allies of both Athens and Ankara is counsel restraint and patience, which we have done, and suggest to both sides that it is in their interests to find a negotiated solution. But I would be very wary of taking on this set of problems and defining them as U.S. foreign policy problems, because I think if we are going to be honest with ourselves, the problems are very intractable and they are going to be very difficult to resolve.

Senator **Sarbanes**. Well, there are some problems that I think can be left to the countries to work out between themselves. But you made reference to the participation in NATO exercises. Of course, that broke down, very simply, over the question of the status of Lemnos.

I have looked into that and I really do not know of any international law experts who feel there are two sides to that question, and yet it is an obstacle to carrying forward the NATO exercises, is it not? Was that not the specific cause of the breakdown?

Mr. **Burt**. Yes, it was. You are correct, Senator. The real question we have to ask ourselves is, how do we address this issue within the alliance? Do we want, for example, the supreme allied commander to try to address this issue, as he has tried in the past? As you recall, there was a period where Greece actually left the integrated military system of the alliance over this dispute. And it agreed to come back into the system without prejudging the resolution of these issues.

General Rogers has worked on this problem and has tried to seek a solution. Are there other better ways within the alliance to address it? Again, we have to recall that, while we are the leading member of the NATO alliance, we are only one of 16 members of the NATO alliance. One thing we want to avoid, it seems to me, is allowing Greek and Turkish differences on these issues to paralyze the alliance as a whole.

Senator **Sarbanes**. Are we going to have another round?

Senator **Pressler**. You go ahead.

Senator **Pell**. I am finished with mine. Go ahead.

Senator **Sarbanes**. Thank you.

Am I correct that we have had a lot of back and forth with our NATO allies on the 3-percent contribution on their military forces generally in the NATO alliance?

Mr. **Burt**. I am not quite sure either about your question——

Senator **Sarbanes**. I mean the increase from year to year. Is it not a real increase that we have pushed our NATO allies to do?

Mr. **Burt**. In the late seventies there was an agreement by the heads of government, I think here in Washington in a summit meeting hosted by President Carter, that all the members of the alliance would make their best efforts to increase their real defense spending—that is, after inflation—by 3 percent a year.

And this administration has encouraged all our NATO allies to increase their spending by at least that amount, because of course we have increased our spending by far more than 3 percent in real terms a year.

Senator **Sarbanes**. And in fact, their failure to do so has been to some extent the factor prompting efforts in the Congress to change the American commitment? I mean to bring home some American forces, and so forth and so on?

Mr. **Burt**. Well, if you are referring to the Nunn amendment, that is correct.

Senator **Sarbanes**. I saw some figures, and I just want to check them, on the percentage of GDP spent on defense by NATO forces, and Greece was at the top of the NATO countries. And in all fairness, I think Turkey was second or third. Is that correct?

Mr. **Burt**. I think that is correct.

Senator **Sarbanes**. So that in both instances they are making a very heavy commitment, partly for NATO and I guess partly because of their concern with respect to one another, would that be right?

Mr. **Burt**. Well, Senator, I would hope that it would be for NATO, but I fear that it is mainly for the latter purpose that you mentioned.

Senator **Sarbanes**. I wanted to ask you about the human rights situation in Turkey. Accepting at least up to a point your statement about the important strides that have been made in Turkey with respect to an improvement in the human rights situation and trying to bring back a restoration of some democratic institutions, nonetheless in the European Commission on Human Rights there continue to be strong misgivings with respect to some of the human rights practices.

Could you bring us up to date on that?

Mr. **Burt**. Well, I cannot speak to precisely what the European Commission on Human Rights has said. I might note that the European Commission on Human Rights has spoken about a number of situations in Europe, including for example conditions in Northern Ireland. So Turkey is not the only focus of their attention.

I would just make a few points. First, as I mentioned in my testimony, we think that real progress has been made in the human rights area and that it is really unfair, unfair, Senator, to take simply a snapshot of the current situation without comparing it to the situation of 2, 3, or 4 years ago.

Senator **Sarbanes**. Well, I am not trying to do that.

Mr. **Burt**. And I was not suggesting that you were doing that.

Senator **Sarbanes**. In fact, I prefaced the question by acknowledging the point you made in your statement.

Mr. **Burt**. I recognize that and I was not suggesting that you were doing that.

But I think it is useful to recognize that here is a country that has held two nationwide elections. It has reestablished a democratic parliamentary form of government. They have lifted martial law in most of the provinces of Turkey. They have reinstituted collective bargaining and the right to strike throughout the country. They have embarked on their own long-term program of penal reform, and a parliamentary commission has been established to inspect and report on prison conditions.

Now, our position on human rights in Turkey is very clear. We continue to express concern to the Turkish Government regarding the continuation and initiation of trials of persons accused of crimes of association and crimes of expression, and continuing reports of torture concern us deeply.

We, though, note that the Turkish Government has denounced the use of torture and has punished convicted torturers severely. We believe, however, that the elimination of long periods of pretrial confinement, which are currently still possible in areas under martial law, would enable the Turkish Government to more quickly stamp out the abuse of torture.

We are also encouraging constructive dialog between the Turkish Government and the minority religious communities in Turkey to resolve longstanding disagreements on administrative and property questions.

So in sum, Senator, I think that we are making progress. We think that there is obviously room for more progress, and we are working with the Turkish Government to achieve it.

Senator **Sarbanes**. On that last point, the status of the minority religious communities, the Ecumenical Patriarchate actually has treaty rights or protection under treaties, and there has been considerable concern about its status and its ability to function as the world leader of Eastern Orthodoxy.

What does the Department understand the current situation to be?

Mr. **Burt**. We have spoken about this problem before, Senator. I would just simply say that we are in contact with the Turkish authorities and we are encouraging them to carry out a constructive dialog to resolve these disagreements on administrative and property questions that exist. We are aware of the situation and we are trying to play a helpful and constructive role.

Senator **Sarbanes**. It it your sense that the Ozal Government is desirous of bringing about improvements in that situation?

Mr. **Burt**. I would hope that they are. And I would just add that one of the really positive things, I think, about the impending visit of the Prime Minister is that he will have a chance to address these questions with you and others in the Congress during his visit.

Senator SARBANES. Would the administration expect to discuss these matters with the Prime Minister as well on his visit?

Mr. BURT. Well, I do not want to prejudge, especially in public, the issues on our agenda. But I will say that the question of human rights is a very important question to the Reagan administration. It is one that the President himself is strongly concerned about. As you know, he believes in quiet diplomacy, and a visit like this offers an opportunity for quiet diplomacy.

Senator SARBANES. Thank you, Mr. Chairman. And thank you, Mr. Secretary.

Senator PRESSLER. I have just one concluding line of questions. As I understand it, we have approximately 2 bases in Turkey and 5 in Greece and 2 in Portugal and 2 in Spain and about 10 in Italy and none in Cyprus, is that right?

Mr. BURT. That sounds roughly correct.

Senator PRESSLER. Now, you conceptualize in your opening statement about a region of power, about how the Soviets looked upon this as a critical region. Would you expand upon that a bit in terms of these. First of all, do we have nuclear weapons at any of those bases?

Mr. BURT. We do not comment in public, as you know, Senator, on nuclear weapons deployment questions. We neither confirm nor deny the existence or presence of nuclear weapons.

Senator PRESSLER. Well then, in view of your opening statement, you conceptualized about this region and how critical it is. Would you expand on that a bit? What was that you said, that the Soviets consider it a region like the Persian Gulf or something of that sort?

Mr. BURT. Well, what I was suggesting, Senator, is, as the West has become more dependent on the area that we now call Southwest Asia, the complex of countries involved in the Arab-Israeli conflict in the eastern Mediterranean through those in the Persian Gulf, that as we have become more dependent on resources, mainly oil from that area, that that region has become more volatile, both because of the traditional Arab-Israeli dispute, but also now, as we see in the Iran-Iraqi conflict, because of conflicts between other local powers.

And that, coupled with the presence, the growing presence of the Soviet Union in terms of its direct involvement, such as in Syria, its growing naval presence in the Indian Ocean and in the eastern Mediterranean, and in its arms supply relationships with countries like Libya—Turkey has become a vital strategic bridge, if I can use that phrase, both in a geographical sense and in a cultural sense, between Western Europe and the Mediterranean and the Middle East.

As I mentioned, Turkey is the only Islamic member of NATO. It has access and ties and insights into the Middle East that we lack. I have to be very candid with you: Some of the most interesting meetings I have had as an Assistant Secretary of State has been sitting in meetings between Secretary Shultz and the Turkish Foreign Minister, Minister Halefoglu, who has a great deal of knowledge on a wide range of subjects, including the Middle East.

The Turks, from their old Ottoman empire days, have insights and wisdom and experience that can be very helpful and very useful, particularly as NATO as an alliance has to look beyond its existing boundaries and worry about the extent to which Western interests are at stake in so-called third areas, like the Middle East, like the Indian Ocean, and like the Persian Gulf.

So Turkey plays a very valuable role in a diplomatic sense and in a strategic sense, as a bulwark both against Soviet expansionism and against volatility in the Middle East and the Gulf.

Senator **Pressler**. You mentioned that Turkey is an Islamic republic and plays a key role. What positions have the Greek and Turkish Governments taken, respectively, with regard to the Iran-Iraqi conflict? And also, what position do they take in supporting or commenting on the U.S. role in the Middle East, and in particular U.S. support for Israel?

Those are sort of three questions there. The first regard the Iran-Iraqi conflict which you mentioned. What is the specific position?

Mr. **Burt**. Well, here is a perfect example, I think, of what I was just saying, where the Turks have been very active in talking to both the Iraqis and the Iranians about this conflict. Now, there have been a number of people who have tried to resolve it, everyone from Olaf Palme on up

But the fact is that the Turks have given us the most valuable insights on the thinking in both Baghdad and Teheran, because they can have access to these capitals which we, for one reason or other, lack. And they obviously have vital security interests, as I pointed out before, related to that conflict.

I am not sure what the Greek Government's position on that conflict is. I think they do not really have one, but it is not as relevant to Greece as it is to Turkey.

Would you repeat your second question?

Senator **Pressler**. Yes. What are the respective roles of the two governments vis-a-vis the U.S. role in the Middle East, and in particular U.S. support for Israel, their positions with regard to Israel in the Middle East?

Mr. **Burt**. We think that the most important aspect, for instance, of our position in the eastern Mediterranean and the Middle East is, beyond our strong relationship with Israel and our strong military and security relationship with Israel, is a strong relationship with Turkey. We think that is very much in the interest of both Israel and the United States, that Turkey have a strong, secure military capacity to defend itself.

It is very difficult to see how we could carry out or have a strong military presence in the eastern Mediterranean, which is vital to the defense of Israel, without having a strong military relationship with Turkey. Turkey has recognized Israel. That is, I think, diplomatically helpful and useful to the Israelis.

I am going to ask Mr. Haass to comment on Greece.

Mr. **Haass**. As Mr. Burt pointed out, Turkey is one of two Islamic states that have diplomatic relations with Israel. Egypt is the other.

In the case of Greece, Greece also has relations with Israel. It is represented in Tel Aviv by an individual who has the rank of ambassador, but with what is known as a legation rather than a formal embassy in Israel. The Greeks also have a special diplomatic relationship with the Palestinian Liberation Organization, which has representation in Athens.

In terms of the Greek foreign policy toward the Middle East, one hears less of Greek positions vis-a-vis the American approach so much as its own. And Greece has taken an active role in the European Community, for example, in trying to push for strong statements by the community on behalf of various positions vis-a-vis the Middle East.

Senator **Pressler**. My final question is in relationship to the Turkish air force or the Greek air force. Last year Turkey commenced the purchase of F-16 fighter aircraft. I imagine that that was under our foreign military sales credit program, is that correct?

Mr. **Burt**. That is correct.

Senator **Pressler**. Where does that program stand, and how much of the current military assistance request will go for the modernization? None of that will go for modernization of the Turkish air force, although some of it might, or is it all going for the F-16?

In your answer, would you weave in the impact of those F-16's in that region. Has Greece made a similar request or does it have a countervailing force? Are those F-16's mainly pointed at the Soviet Union? They are probably not pointed in any direction. They probably fly in all directions. But is that what they are there for?

Mr. **Burt**. The F-16's are air defense aircraft and they are designed to protect the integrity of Turkish air space. They will be deployed so that they can defend the integrity of Turkish air space.

A good chunk of the Turkish security assistance budget, I think somewhere in the vicinity of $250 million, will go for beginning the opening wedge of this F-16 program. And the F-16 program, which is only now, Senator, getting underway, will take up the major chunk of Turkish security assistance from the United States for several years to come.

The Greeks have also made a decision to purchase the F-16, along with some advanced French aircraft, and they too will be spending significant portions of their security assistance on their upgraded air defense aircraft.

Senator **Pressler**. I have no further questions.

Senator **Sarbanes**. Mr. Haass, there was one element you left out of your answer to the chairman. What was the Turkish-PLO relationship?

Mr. **Haass**. Excuse me, Senator?

Senator **Sarbanes**. The relationship between Turkey and the PLO?

Mr. **Haass**. I do not know of it myself. I will have to get back to you on that for the record, exactly what the details are of that.

Senator **Sarbanes**. I think it is the same as the Greek-PLO relationship, to which you responded in terms of setting out that relationship. My understanding is that it is roughly the same sort of status.

Mr. **Haass**. You may be right, but I would rather, to make sure, get back to you for the record on that.

Senator **Sarbanes**. If you would do that, I would appreciate it.

[The material referred to follows:]

Turkey recognizes the PLO as a spokesman for the Palestinian people. The PLO maintains an office in Ankara, and a representative is resident there.

Senator PRESSLER. I have been reminded that we are going to markup on Tuesday. Therefore, with respect to the various requests for material—and I made a couple of requests regarding Spain and Portugal, and Senator Pell has made some requests—it would be helpful if those could be in our hands by noon on Monday. That might be hard to do. Would that be possible?

Mr. BURT. I am sure it will be. We will burn the midnight oil.

Senator PRESSLER. So that we will have it for our markup.

I thank you both very much. We shall now call forward our next witnesses. It has been suggested that we have a 10-minute limitation. We would ask the witnesses to summarize their testimonies, in view of the fact that some of us have airplanes to catch later today.

We thank these witnesses very much. We will call them forward now.

[Pause.]

Senator PRESSLER. I will first call on Mr. Cleo N. Zambetis, supreme president of the American-Hellenic Educational Progressive Association, for his statement. And let me call the committee back to order, please.

You may proceed.

STATEMENT OF CLEO N. ZAMBETIS, SUPREME PRESIDENT, AMERICAN HELLENIC EDUCATIONAL PROGRESSIVE ASSOCIATION, ACCOMPANIED BY ELIAS VLANTON, DIRECTOR OF PRESS AND INFORMATION, AHEPA

Mr. ZAMBETIS. Thank you, Mr. Chairman.

Senator PRESSLER. Excuse me.

May I please ask that the conversations in the back of the room and over at the press table cease.

Please proceed.

Mr. ZAMBETIS. I appreciate this opportunity to present the views of the American Hellenic Educational Progressive Association [AHEPA], an organization whose membership is composed primarily of Americans of Hellenic descent.

No one disputes the fact that the United States has important security interests in and relations with Greece, Turkey, and Cyprus. The purpose of this hearing is to discuss how these interests can be best served and our relations with these countries strengthened.

Although protecting our security interests is the primary function of U.S. security assistance, the political symbolism of that assistance dictates that factors other than purely geostrategic location may be taken into consideration.

I have submitted my prepared remarks for inclusion in the record. I would like to take this opportunity to summarize the AHEPA's views and briefly comment on the recommendations made by your colleagues on the House Subcommittee on Europe and the Middle East on Wednesday, March 20.

Our director of press and information, Mr. Elias Vlanton, is on my left and is here to assist me in answering any questions.

There are three general recommendations which I would like to make. First, maintenance of a military balance in the region. The support of the United States will be an important factor in influencing progress on Cyprus. Yet our policy must be carefully weighed so that it does not place in jeopardy our bilateral relations with Greece or Turkey. I therefore urge this committee to authorize military assistance for Greece and Turkey at levels that will not disrupt the balance of power in the region. I also urge the committee to include language that will maintain the linkage of Turkish aid to Turkish flexibility on Cyprus.

Second, I urge the committee to authorize a sum of $250 million for the establishment of a Cyprus cooperative development fund that would make moneys available for projects that benefit all Cypriots and that would foster intercommunal understanding. I would also recommend that, as in previous years, the committee authorize $15 million in economic assistance for Cyprus, and urge you to earmark a portion of that assistance for projects that will foster intercommunal contact and cooperation.

Third, continued American support for the withdrawal of Turkish troops. Despite the breakdown of the summit meeting between Cypriot President Spyros Kyprianou and Turkish Cypriot leader Rauf Denktas, the opportunity for a Cyprus settlement clearly exists. It is obvious that a major stumbling block toward progress in the negotiations is the continued presence of the Turkish troops on Cyprus. I believe that continued American encouragement for Turkey to begin a systematic withdrawal of its troops—parallel to the progress in the negotiations—will provide an important boost over this hurdle.

I would like to conclude my remarks by briefly commenting on the recommendations adopted by the House Subcommittee on Europe and the Middle East on Wednesday, particularly in regards to the establishment of a Cyprus peace and reconstruction fund and the provision that all FMS credits to Turkey be granted at concessional interest rates.

The House subcommittee recommended the establishment of a $250 million Cyprus peace and reconstruction fund as a fiscal year 1985 supplemental request. These moneys would be made available pending Presidential certification that an agreement has been concluded that would achieve substantial progress toward a Cyprus settlement.

We welcome and fully support measures that will foster better intercommunal relations, and I believe that the fund, coupled with other initiatives and developments, can be a catalyst for the resumption of the intercommunal talks and progress toward a Cyprus settlement.

However, language must be included that makes the existence of the fund seem less remote, and that clearly specifies that the fund is to be used for projects approved by a joint panel of Greek Cypriot and Turkish Cypriot authorities and that would benefit all Cypriots.

I would also like to make an observation concerning the concessional rates for the FMS credits, which I feel mask the true monetary value of the FMS Program. For fiscal year 1986 the administration requested $555 million in FMS credits for Turkey, $210 million at Treasury rates and $345 million at concessional interest rates.

The House subcommittee markup reduced the total FMS credits by $34 million to $521 million, but with all credits to be extended at concessional interest rates. According to a General Accounting Office estimate, the added value of a loan at concessional rates is approximately 30 percent of that loan. Thus the value of $521 million in FMS credits at a concessional interest rate is actually $18.8 million more than the administration's request.

Although the House subcommittee's intent was to preserve the principle of balance, which Congress has defined as a 7 to 10 ratio in military aid to Greece and Turkey, the concessional interest rate obscures the value of the Turkish FMS Program.

As I mentioned earlier, I believe that maintaining the balance of power in the region is of paramount importance, and therefore urge this committee to take the additional value contained in the concessional loans into account during your deliberations.

Thank you very much.

[Mr. Zambetis' prepared statement follows:]

Statement of Cleo N. Zambetis, Supreme President
American Hellenic Educational Progressive Association
before the
Subcommittee on Europe
Committee on Foreign Relations
United States Senate
March 22, 1985

Mr. Chairman, members of the Subcommittee, I appreciate this opportunity to present the views of the American Hellenic Educational Progressive Association, AHEPA, an organization whose membership is composed primarily of Americans of Hellenic descent.

Overview

No one disputes the fact that the United States has important security interests in, and relations with, Greece, Turkey, and Cyprus; the purpose of this hearing is to discuss how these interests can be best served and our relations with these countries strengthened.

Together, Greece and Turkey anchor NATO's southeastern flank: without Greece, Turkey would be very difficult to defend; without Turkey, it would be far more difficult for NATO to contain Soviet naval expansion. Bilateral disputes over control of the Aegean and the absence of a Cyprus settlement pose severe problems for American policy. These problems are heightened by the fact that during the last ten years both countries have, to a large degree, weighed their relations with the U.S. against the levels of foreign aid allocated to each.

Since the lifting of the Turkish arms embargo in 1978, maintaining a military balance between Greece and Turkey has been a key ingredient of U.S. policy. Congress has expressed the principle of balance by authorizing and appropriating aid to Greece and Turkey at a ratio of 7:10. (See, for example, Senate Foreign Relations Committee, Report 98-146 FY84 Foreign Assistance Act). The administration, while endorsing the principle of balance, does not believe it can be expressed through a fixed ratio.

The Greek government views the 7:10 ratio in military assistance for Greece and Turkey as the lowest level needed to maintain a balance of power in the region. In a recent speech, the Ambassador of Greece to the United States, George Papoulias, said that: "[The Greek people] will consider the maintenance of the 7:10 ratio in both quantity and quality as a *sine qua non* condition for future relations between ourselves and the Alliance." Breaking this ratio at a time of rising tensions in the region could be far more detrimental to U.S. security interests than expressing the principle of balance through maintenance of the 7:10 ratio.

Aid to Cyprus, Greece and Turkey

Since the Turkish invasion in 1974, the Republic of Cyprus has been partitioned; 40% of its northern territory is still under Turkish occupation. Cypriots of Turkish descent, who comprise roughly 18% of the total population, reside in this area. Partition has meant that Greek Cypriots are prohibited from entering the Turkish Cypriot sector and vice versa. There is a consensus among all Cypriot leaders that a new generation of Cypriots is growing up with no positive experiences of the other ethnic group. This is an obstacle in the re-establishment of a single, unified Cyprus, which is the stated goal of U.S. policy.

Any political settlement reached now will have to be supported by confidence-building measures that foster greater intercommunal understanding, if that settlement is to endure. Otherwise any agreement reached by the political leadership could very likely send Cyprus back down the disastrous road of the early 1960s.

Last May, the House of Representatives authorized President Ronald Reagan's proposal for the establishment of a $250 million "peace and reconstruction fund" for Cyprus. A problem with the President's proposal was that this fund would be accessible only after a final settlement had been reached. I believe that a similar proposal, included in the fiscal 1986 foreign aid authorization bill and with language that would make some of the monies immediately available for confidence-building measures, could become a catalyst for a prompt resumption of the negotiating process under United Nations auspices.

Under this type of cooperative development fund, monies would be made available for projects that benefit all Cypriots and promote high levels of intercommunal contact and cooperation. This does not mean that the money would simply be doled out to either the Government of Cyprus or the Turkish Cypriot administration. Projects would have to be approved by a joint panel of Greek Cypriot and Turkish Cypriot local authorities. Appropriate ventures might include completion of the Nicosia sewer project, waste water irrigation, seawater distillation, as well as a feasibility study of projects that would meet the fund's criteria. The idea of a Cyprus university is also immensely popular among all Cypriots, and some monies from the fund could even be used to finance a study for the establishment of an institute of higher education after a settlement has been reached.

The Cypriots are a resourceful and well-educated people and the Government of Cyprus has certainly demonstrated this by the wise use of the aid which they have received to date. I believe that a Cyprus development fund will help the Cypriots in their search for a key to unlock the door to peace and prosperity.

The problems between the U.S. and Greece, to some degree, stem from the Greek people's perception of Turkey as a greater threat to their national sovereignity and territorial integrity than their Warsaw Pact neighbors. At the same time, Greece's commitment to the U.S. has not lessened, as evidenced by the successful conclusion of a Defense and Economic Cooperation Agreement. And, despite recent strikes outside the American airbase at Hellenikon, all the American bases in Greece remain fully operational and perform all required military duties.

The Greek perception of a threat from Turkey can be traced back to the Turkish invasion of Cyprus in 1974. In the eyes of the Greek people, the perceived unwillingness of the U.S. to deter the invasion demonstrated the inability of the NATO alliance to guarantee Greece's security vis a vis Turkey. Thus, Greek foreign policy since 1974 has sought to lessen Greece's dependency on the U.S. and develop its relations outside NATO.

Since 1974, when Turkey used American-supplied equipment--in violation of the U.S. Foreign Assistance Act--to invade Cyprus, there have been two phases in U.S. policy: the Turkish arms embargo from 1975-1978; and the post-embargo period from 1978 to the present, during which Turkish military aid has been significantly cut by Congress. In the context of U.S. law, the arms embargo was the correct response; in terms of stimulating Turkish flexibility in the Cyprus negotiations, however, the embargo failed. Yet, the lifting of the embargo has not led to a softening of the Turkish position.

If the members of this committee sincerely believe that authorizing Turkish aid for fiscal year 1986 at the requested level might stimulate Turkish flexibility on Cyprus, I urge the committee to include strong language in the foreign aid bill that explicitly outlines this linkage between aid to Turkey and Turkish flexibility on Cyprus. Should this sign of our good faith not produce a softening in the Turkish position, then I believe that Congress should employ the options of severely cutting or conditioning Turkish aid for fiscal 1987.

The resumption of the intercommunal negotiations, and progress towards a settlement, is to a large degree hindered by the presence of the Turkish troops in northern Cyprus. If Turkey were to begin a systematic withdrawal of its troops or accept the replacement of those troops with an expanded United Nations peacekeeping force, this could substantially help break the current deadlock in the negotiations.

Recommendations

Although protecting our security interests is the primary function of U.S. security assistance, the political symbolism of that assistance dictates that factors other than purely geostrategic location be taken into consideration. Congress, and particularly the members of this committee, have repeatedly expressed their concerns about Cyprus and U.S. policy in the Eastern Mediterranean.

Maintenance of a military balance in the region.

The support of the U.S. will be an important factor in influencing progress on Cyprus, yet our policy must be carefully weighed so that it does not place in jeopardy our bilateral relations with Greece and Turkey. I therefore urge this committee to authorize military assistance for Greece and Turkey at levels that will not disrupt the balance of power in the region. I am confident that in determining these aid levels the members of this committee will give consideration to the military and political ramifications of these levels. I also urge the committee to include language that will maintain the linkage of Turkish aid to Turkish flexibility on Cyprus.

Establishment of Cyprus fund.

I urge the committee to authorize a sum of up to $250 million, for the establishment of a Cyprus cooperative development fund that would make monies available for projects that would benefit all Cypriots and would foster intercommunal understanding. This amount was proposed by President Ronald Reagan to the Joint Economic Committee last May. On February 7, Senator Paul Trible introduced Senate Resolution #68, currently co-sponsored by Senator Larry Pressler, outlining a proposal for the establishment of such a cooperative development fund. We strongly support this resolution and hope that the committee will consider similar language during its deliberations.

I would also recommend that, as in previous years, the committee authorize $15 million in economic assistance for Cyprus, and I urge you to earmark a portion of that assistance for projects that will foster intercommunal contact and cooperation.

American support for the withdrawal of Turkish troops.

Turkish flexibility is particularly important in the early stages of the negotiations. President Reagan's letter to General Kenan Evren was undoubtedly helpful in the subsequent Turkish Cypriot flexibility which resulted in the summit meeting. This clearly demonstrates that Turkey can be responsive and that the U.S. does have the ability to help facilitate a resolution of the Cyprus conflict.

Despite the breakdown of the summit meeting between Cypriot President Spyros Kyprianou and Turkish Cypriot leader Rauf Denktash, the opportunity for a Cyprus settlement clearly exists. It is obvious that a major stumbling block towards progress in the negotiations is the continued presence of the Turkish troops on Cyprus. I believe that continued American encouragement for Turkey to begin a systematic withdrawal of its troops--parallel to progress in the negotiations--will provide an important boost over that hurdle.

I believe that while the only catalyst for progress in the short-term will be Turkish flexibility and forthcomingness, incentives such as a Cyprus cooperative development will help lay the foundation for the peaceful and lasting resolution of the Cyprus issue.

Let me conclude by stating that I believe that the U.S., and Congress in particular, can help ensure that the opportunity for a settlement is not lost by: (a) maintaining a balance of power in the region; (b) supporting initiatives that will help create an atmosphere conducive to a settlement in Cyprus; and, (c) reaffirming our strong support for the withdrawal of Turkish troops from Cyprus.

Thank you.

Senator **Pressler**. Thank you very much.

I shall next call upon Mr. Joseph Youssouf, representing the Assembly of Turkish American Associations.

STATEMENT OF JOSEPH D. YOUSSOUF, ESQ., REPRESENTATIVE OF THE ASSEMBLY OF TURKISH AMERICAN ASSOCIATIONS AND THE TURKISH CYPRIOT CULTURAL AND EDUCATIONAL ASSOCIATION OF THE UNITED STATES OF AMERICA, ACCOMPANIED BY NAN CANTOR, EXECUTIVE DIRECTOR, ASSEMBLY OF TURKISH AMERICAN ASSOCIATIONS

Mr. **Youssouf**. Thank you, Mr. Chairman.

The name for the record actually is "Youssouf." I know it is hard to pronounce and easy to misspell.

Thank you very much. Mr. Chairman and members of the committee, I sincerely appreciate the opportunity to appear before you today to discuss the concerns of the Assembly of Turkish American Associations and the Turkish Cypriots who are members of that association. I sincerely hope that the information I am going to present to you today will be of some assistance as you struggle with the weighty and complex issues of American foreign policy and the impact that foreign assistance has in shaping that policy.

Much attention has been devoted to the Cyprus issue in the last few years. Since the 1974 crisis, there has been a tendency in Congress to try to force or obtain a resolution of the Cyprus problem by reducing aid to Turkey, and advocates of this policy enjoyed success in the imposition of an arms embargo against Turkey between 1975 and 1978.

The premise of the position that I am putting forth in the paper and that I am synopsizing here is that American military and economic assistance, contrary to what Mr. Zambetis just said, should not be linked to progress on Cyprus. The fact that the embargo and subsequent punitive measures against Turkey have failed to contribute to a settlement of the problem and merely undermined the military effectiveness of one of our staunchest and most strategically important NATO allies confirms the mistaken perception which lay behind this approach.

It is respectfully submitted that this approach was the product of ignorance of the true facts concerning Turkish involvement in the Cyprus conflict, and betrays the basic American foreign policy goals of peace and security throughout the Middle East region.

It is extremely important in my view to understand that the Cyprus problem did not begin with the Turkish intervention of July 1974, but its origins date back in fact to the 1950's. Turkish Cypriots opposed the struggle for union with Greece, commonly known as "Enosis," and they were consequently attacked by members of the Greek Cypriot terrorist organization, known as EOKA. As EOKA struggled for independence against the British imperialists that were then ruling the island, they also attacked people who did not see eye to eye with them on this major issue.

As Enosis was impossible while Turkish Cypriots and Turkey rejected it, an independent Cypriot state was eventually recognized as the only solution to a very complex problem. The republic, which was established in 1960, was the product of a compromise involving the two national communities in Cyprus, the Turkish and the Greek communities.

The constitution which emerged after the 1960 independence struggle was developed by a joint international constitutional commission and institutionalized the concept of bicommunality. That really meant that the republic recognized the existence of two distinct ethnic groups on the island, the Turkish Cypriots and the Greek Turkishs. The governmental structure embodied these concepts.

Now, the Turkish Cypriot people sincerely hoped that the bicommunal partnership government would function in accordance with the terms of the 1960 constitution. They hoped that the system of checks and balances contained in that constitution would preserve their basic human rights and allow them to live in peace and prosperity. Unfortunately, their hopes were betrayed and their worst fears were realized by subsequent events.

Now, the Greek Cypriot people who were elected to office pursuant to the new constitution took the awful step of betraying the terms of that constitution and attempted to use their governmental authority to attain the goal of Enosis, a goal which they had officially renounced. As early as September 14, 1962, Archbishop Makarios said, and this is a direct quotation:

> Unless this small Turkish community forming a part of the Turkish race which has been the terrible enemy of Hellenism is expelled, the duty of the heroes of EOKA can never be considered as terminated.

That is from the man who was the first president of the republic.

Polykarpos Yorgadjis, the Minister of the Interior, in charge of police functions, went so far as to say:

> There is no place in Cyprus for anyone who is not Greek, who does not think Greek, and who does not consistently feel Greek.

Imagine the sense of outrage and anger which would occur in our country of elected public officials, sworn to uphold basic constitutional rights, sworn to preserve human rights, engaged in the subversion of those principles and uttered racist diatribes against a significant population of the country.

Is there any wonder that Turkish Cypriots viewed their future with apprehension and feared for their basic human rights? Those fears became more pronounced in 1963, when Archbishop Makarios proposed constitutional amendments which were by the terms of the constitution illegal amendments in the first place. They were clearly intended to deprive the Turkish community of the rights which had been institutionalized at the time of the creation of the Republic of Cyprus.

Between 1963 and 1964, crisis ensued, during which hundreds of Turkish Cypriots were killed and more than one-quarter of the entire Turkish Cypriot population fled their homes. These attacks and an intentional policy of discrimination were in fact carried out by people who claimed to be the "government of Cyprus."

Between 1963 and 1974, the Turkish Cypriot community was systematically deprived of their basic rights. The vice president and the Turkish Cypriot representative in the legislature were prevented from participating in the government. Turkish Cypriot judges and civil servants were similarly prevented from carrying out their duties.

Under the guise of maintaining law and order, the Turkish Cypriot community was subjected to an economic blockade which U Thant, former Secretary General of the United Nations, observed that the economic restrictions imposed against Turkish Cypriots amounted to a "veritable siege" and they were intended to obtain by political force and economic force what they could not obtain through military force.

During the period between 1964 and 1967, Cyprus was virtually under the occupation of Greece, which had infiltrated approximately 20,000 well-armed and trained troops into Cyprus. They were officered by Greek nationals and commanded by the notorious General Grivas, a self-proclaimed pro-Enosis fanatic who had led the EOKA terrorists before 1960 and who believed that military force should be used to crush Turkish Cypriot resistance and to force the union of Cyprus with Greece.

In 1967 there were over 600 shooting incidents on the island of Cyprus and villages inhabited by Turks were attacked by Greek Cypriot forces and Greek forces. A war almost ensued between Greece and Turkey at that point in time, but was narrowly averted.

By 1970, Archbishop Makarios, one of the foremost spokesmen in favor of the concept of Enosis, realized that Enosis was impossible due to the dedication and adherence to the basic constitutional precepts by the Turkish people, of the 1960 constitution. However, Greek Cypriot extremists then attacked Archbishop Makarios.

Finally, in July 1974 a coup d'etat, directed and fully supported by the Greek junta in Athens, removed Makarios and installed as President, Nikos Sampson, a man who had been a notorious EOKA terrorist before the estalishment of the republic and who had won election to the Greek Cypriot house of representatives in 1969 on the slogan "Death to the Turks."

The rise to power of this fanatical anti-Turkish racist destroyed all remaining illusions about the rule of law in Cyprus. It was clear to the Turkish Cypriot community that they were in immediate peril.

I submit to you that, acting pursuant to the Treaty of Guarantee, Turkey intervened in Cyprus in 1974. Turkey had to intervene because the Turkish Cypriot population was in imminent danger of removal or termination.

The Turkish Cypriot intervention in Cyprus provoked an immediate and hostile response in our country. But it is truly ironic that the Turkish intervention which provoked that response in America—and I am referring to the 1974 arms embargo—was later described in the Athens court of appeals, in a decision dated March 21, 1979, as follows:

> The Turkish military intervention, which was carried out in accordance with the Zurich and London accords, was legal. Turkey as one of the guarantor powers had the right to fulfill her obligations. The real culprits are the Greek officers who engineered and staged the coup and prepared the conditions for this intervention.

Now, between 1974 and 1983 peace prevailed in Cyprus. It was a stagnant peace regarding intercommunal talks, but violence stopped. The Turkish military presence on the island of Cyprus had the salutary effect of preventing the terrorist attacks that had been perpetrated against the Turkish community.

There was no intercommunal warfare at the conclusion of the 1974 hostilities. But there was also no negotiated movement toward the creation of a true federal republic. By 1983, despite numerous talks, it became obvious that continuing Greek Cypriot intransigence and the insistence that the Turkish military forces be removed from the island as a precondition to negotiation would leave the island in the state that it was then, and that was unacceptable.

Consequently, the Turkish Cypriots felt compelled to take a dramatic step which would bring their plight and position to the attention of the world. I submit to you that to understand why the Turkish Cypriots declared statehood in November of 1983, you must view it in light of basic American political principles.

It is fundamental American doctrine that government exists by the consent of the governed and that a government's primary purpose is the preservation of life and liberty. A government must treat all of its citizens as equals under the law to retain its validity. These ideals, expressed in our Declaration of Independence, really are the same ideals which led to the declaration of statehood.

The government of 1960, which had been terminated forcefully, failed in its responsibilities, had breached the social contract, and consequently in 1983 the Turkish community needed to do something.

I submit to you that the record of the most recent talks is very instructive. Secretary Perez de Cuellar had high hopes that we would have a solution. A federal bicommunal republic had been drafted. Unfortunately, at the very first meeting in January 1985 Mr. Kyprianou rejected what he had helped draft, what he had helped create.

Consequently, as of this date we remain with a Cyprus that is divided and with a solution that eludes all parties and all men of good will actively soliciting and looking for peace.

I would just simply like to point out that, as my colleague Mr. Zambetis has said, we support economic assistance to Cyprus. I have been there. I have seen it first hand. It is a poor country. It needs public works projects, it needs scholarships, it needs what American money can provide.

The only thing I ask this deliberative body to do is to ensure that that money, if given to Cyprus, is administered in an even-handed and fair fashion, so that the Greek community and the Turkish Cypriot community both obtain a share of that money, which is very necessary.

Mr. Chairman, thank you.

[Mr. Youssouf's prepared statement follows:]

PREPARED STATEMENT OF JOSEPH D. YOUSSOUF

Mr. Chairman and Members of the subcommittee, Thank you for giving me the opportunity to appear before this subcommittee on behalf of the Assembly of Turkish American Associations and the Turkish Cypriot Cultural and Educational Association of the United States of America. I sincerely hope that the information in this statement will assist the subcommittee as it considers fiscal year 1986 foreign assistance appropriations to Turkey and Cyprus.

Since the 1974 crisis, there has been a tendency in Congress to try to force a resolution of the Cyprus problem by reducing aid to Turkey and the advocates of this policy were successful in imposing an arms embargo against Turkey between 1975 and 1978. The premise of this paper is that American military and economic assistance to Turkey should not be reduced because of Turkish involvement in the Cyprus dispute. The fact that the embargo and subsequent punitive measures against Turkey have failed to contribute to a settlement of the problem and merely undermined the military effectiveness of one of our staunchest and most strategically important NATO allies confirms the mistaken perception which lay behind this approach. It is respectfully submitted that this approach was the product of ignorance of the true facts concerning Turkish involvement in the Cyprus conflict and betrays basic American foreign policy goals.

It is very important to understand that the Cyprus problem did not begin with the Turkish intervention of July 1974 and that its origins go back to the 1950's when the Greek Cypriots, supported by Greece, began an armed insurrection to end British colonial rule and to unite the island with Greece. The Turkish Cypriots opposed the struggle for union with Greece, Enosis, and, consequently, were attacked by the Greek terrorist organization, EOKA. As Enosis was impossible while the Turkish Cypriots and Turkey rejected it, an independent Cypriot state as eventually recognized as the only solution. The Republic of Cyprus, which was established in 1960, was the product of a compromise involving the two national communities in Cyprus, Turkey, Greece and the United Kingdom.

The Constitution of the new state, which was developed by a joint Constitutional Commission chaired by a Swiss Professor of international law and composed of legal experts from Greece, Turkey and the Turkish and Greek Cypriot communities, formally recognized the existence of two distinct national communities in Cyprus and institutionalized bi-communality as the basis of the Cypriot Republic. Executive power was divided between a Greek Cypriot president and a Turkish Cypriot vice-president, each elected by their respective communities. The unicameral legislature created pursuant to the terms of this new constitution was apportioned 70 percent to the Greek community and 30 percent to the Turkish community. There was a similar allocation of posts in the civil service and the judiciary. However, the two communities were autonomous in their communal affairs. In sum, this constitution represented a careful attempt to ensure the political and human rights of all citizens of the Republic of Cyprus. Additionally, a Treaty of Guarantee was executed by the United Kingdom, Greece and Turkey. By this treaty the independence, territorial integrity and security of the Republic of Cyprus was insured. It was the express intention of the guarantors to prevent the union of Cyprus with any foreign power.

The Turkish Cypriot people sincerely hoped that the bi-communal partnership government would function in accordance with the terms of the constitution. They hoped that the system of checks and balances contained in the constitution would preserve their basic human rights and allow them to live in peace and prosperity. Unfortunately, their hopes were betrayed and their worst fears were realized by subsequent events.

The Greek Cypriots elected to office under the new constitution betrayed the terms of that constitution and attempted to use their governmental authority to attain a goal which they had officially renounced, namely, union with Greece. In fact, Archbishop Makarios, who had been elected the first President of the Republic of Cyprus, had never abandoned this commitment to Enosis. He revealed his attitude toward the Turkish population of Cyprus on September 14, 1962 when he publicly stated: "Unless, this small Turkish community forming a part of the Turkish race which has been the terrible enemy of Hellenism is expelled, the duty of the heroes of EOKA can never be considered as terminated."

It is interesting and alarming to note that the President of this newly created Republic, within 2 years after its creation publicly called for the expulsion of the entire Turkish Cypriot community from the island and supported a self-avowed terrorist organization, EOKA, which had fought for union with Greece. Such anti-Turkish racist sentiments were also expressed by other Greek Cypriot officials and one of these, Polykarpos Yorgadjis, the Minister of Interior, went so far as to say that there was: ". . . no place in Cyprus for anyone who is not Greek, who does not think Greek and who does not constantly feel Greek."

Imagine the sense of outrage and anger which would occur in our country if elected public officials, sworn to uphold basic constituional principles, publicly urged the subversion of those principles and engaged in racist diatribes. Is there any wonder that Turkish Cypriots viewed their future with apprehension and feared for their basic human rights?

The fears of the Turkish Cypriot community engendered by these statements were exacerbated in November 1963 when the President of the Republic proposed constitutional amendments which were intended to deprive Turkish Cypriots of their basic constitutional rights. When the Turkish Cypriots rejected these amendments, the Greek Cypriots launched an armed attack throughout the island against their partners in the bi-communal Republic.

It is clear now that the demands for constitutional amendments and the subsequent violence directed against the Turkish Cypriot community were orchestrated and implemented in accordance with a written program, the infamous Akritas Plan. This plan which was intended to effectuate the dissolution of the Republic of Cyprus leading to ENOSIS was drawn up by the Greek Cypriot leadership and Akritas was none other than the Minister of the Interior Polykarpos Yorgadjis.

According to two official records, during the 1963-64 crisis hundreds of Turksih Cypriots were killed and more than one-quarter of the Turkish Cypriot population fled their homes, often leaving behind all their worldly goods. As a result of acts of violence and terrorism and a policy of discrimination ruthlessly pursued by the Creek Cypriot community, which claimed to be the "Government of Cyprus," the island was effectively divided and Turkish Cypriots huddled together in armed enclaves surrounded by hostile and heavily armed Greek Cypriot forces.

Between 1963 and 1974, the Turkish Cypriot community was systematically deprived of basic constituional and human rights. The Vice President and the Turkish Cypriot representatives in the legislature were prevented from participating in the government. Turkish Cypriot judges and civil servants were similarly prevented from carrying out their duties. Under the guise of maintaining "law and order," the Turkish Cypriot communty was subjected to an economic blockade. U Thant, former Secretary General of the United Nations, oberved that the economic restrictions imposed against Turkish Cypriots amounted to a "veritable siege" and that the Greek Cypriots were seeking to "force a potential solution by economic pressure as substitute for military actions."

Turkish Cypriot enclaves were closely guarded. People entering and exiting Turkish Villages were frequently subjected to close bodily searches and lengthy interrogations. The Turkish Cypriot communtiy was deprived of building materials, food stuffs, clothing, electricity, and basic sanitary services. Turkish Cypriot mail was interrupted for years and even when retored was subjected to stringent censorship. All of these violations of Cypriot law were perpetrated by the very people who had sworn allegance to the constitution of the Republic of Cyprus. As is so often the case, the victims of international discriminatory practices were portrayed as dangerous criminals who had to be suppressed for the welfare of the state.

During the period between 1964 and 1967 Cyprus was virtually under the occupation of Greece which had infiltrated approximately 20,000 well-armed and troops into Cyprus. They were officered by Greek national and commanded by the notorious General Brivas, self-proclaimed pro-Enosis fanatic who had led the Eoka terrorists before 1960 and who believed that military force should be used to crush Turkish Cypriot resistance and to unite Cyprus with Greece.

According to U.N. documents, more than 600 shooting incidents took place in cyprus during the year 1967 and a number of Turkish villages were attacked by Greek and Greek Cypriot forces. These wanton acts of violence resulted in the Turkish government issuing warnings to the military junta which had come to power in Greece. Due to American intervention, a war between Greece and Turkey was averted. The events of 1967, however, further polarized the Greek Cypriot and Turkish Cypriot communities and on December 28, 1967 a provisonal Trurkish Cypriot Administration was established to preserve the integrity, safety and well-being of the Turkish Cypriot community.

By 1970, Archbishop Makarios realized that the goal of Enosis would not be easily attained in view of the commitment of the Turkish Cypriot people to their constitution and the commitment of the Republic of Turkey to its obligations. However, this had the effect of dividing the Greek Cypriot community. Between 1970 and 1974 terrorists, dedicated to the concept of Enosis, mounted terrorist attacks against Greek Cypriots who were perceived to be too moderate. Those same terrorists even plotted the assisination of Archbishop Makarios. Finally, in July 1974, a coup-d'-etat, directed and fully supported by the Greek junta, removed Makarios and installed as President, Nikos Sampson, a man who had been a notorious EOKA terrorist before the establishment of the Republic and who had won election to the Greek Cypriot House of Representatives in 1969 on the slogan "Death to the Turks." The rise to power of this fanatical, anti-Turkish racist destroyed all remaining illusions about the rule of law in Cyprus. It was clear to the Turkish Cypriot community that they were in immediate peril.

Acting pursuant to the Treaty of Guarantee, the Turkish Government formally requested the British Government to participate in a joint effort to enforce the provisions of that Treaty. Britain refused to cooperate. The United States Government, for its part, was ambivalent and ineffective. The formal demise of the Republic of Cyprus and its incorporation into Greece seemed imminent. The Turkish Cypriots knew from their history that there was now a very real possibility that they would soon be attacked and either evicted from their homeland or killed. Acting according to a valid international treaty, the Turkish Government ordered it troops to carry out a "Peace Operation" intended to preserve the independence of Cyprus and to prevent its annexation by Greece, while simultaneously protecting the Turkish Cypriot community.

The Turkish intervention in Cyprus provoked an immediate and hostile response by the United States Congress. It is truly ironic that the Turkish intervention which provoked a harsh reaction in America was later described by the Athens Court of Appeals in a decision dated March 21, 1979 as follows:

"The Turkish military intervention in Cyprus, which was carried out in accordance with Zurich and London accords was legal. Turkey as one of the guarantor powers had the right to fulfill her obligations. The real culprits . . . are the Greek officers who engineered and staged a coup and prepared the conditions for this intervention."

Between 1974 and 1983 the situation in Cyprus stabilized and there was no intercommunal violence. With the safety of the Turkish Cypriot community finally assured, an atmosphere conducive to negotiations and the achievement of a just and lasting settlement prevailed. Unfortunately, the Greek Cypriot community refused to move toward a settlement, preferring instead to continue to pose as "the Government of Cyprus" while imposing an economic embargo against the Turkish Cypriots. As a result, neither the inter-communal negotiations which took place during this period nor the summit meetings between Mr. Denktas and Archbishop Makarios in February 1977 and between Mr. Denktas and Mr. Kryprianou in May 1979 opened the way to a final settlement.

By 1983 it was obvious that the continuing Greek Cypriot intransigence would prevent an equitable settlement of the Cyprus problem. The Turkish Cypriots felt compelled to take a dramatic step which would bring their plight and position to the attention of the world. To understand the Turkish Cypriot Declaration of Statehood on November 15th, 1983, it is accurate and helpful to view it in light of basic American political principles. It is fundamental American doctrine that government exists by the consent of the governed and that a government's primary purpose is the preservation of life and liberty. A government must treat all of its citizens as equals under the law to retain its validity. These ideals were most eloquently expressed in the American Declaration of Independence.

If you were a member of the Turkish Cypriot community, how would you have reacted to the deprivation of your basic human rights, the repeated violations of your constitutional rights and the loss of your property and livelihood? It is respectfully submitted that if fundamental American political and legal principles are applied to the situation which existed on the Island of Cyprus prior to 1983, the conclusion is inescapable that the Turkish Cypriot community acted properly when it declared its independence.

Despite its declaration of statehood, however, the Turkish Cypriot community has been willing to participate in the creation of a federal republic and has actively solicited Greek Cypriot cooperation in this regard. The proposed federal republic would be an independent, non-aligned, bi-communal, bi-zonal state. Such a solution seemed to be imminent when the leaders of the two national communities in Cyprus came to New York in January of 1985 for a high level meeting. During three rounds of proximity talks with Mr. Denktas and Mr. Kyprianou, between September and December of 1984, the Secretary General of the United Nations had produced a draft agreement. Even Mr. Papandreou of Greece has been forced to concede that the Turkish Cypriot side had indeed made significant steps in the direction of a "viable and just settlement of the Cyprus problem." Unfortunately, at the very first meeting with Mr. Denktas on January 17, 1985, Mr. Kyprianou raised fundamental objections to each and every paragraph of the draft agreement and refused to endorse the document. These actions by Mr. Kyprianou ensured the failure of the summit.

In view of these facts, can it be seriously alleged that Turkey is responsible for the current situation in Cyprus? Can it be seriousl;y maintained that the Turkish Cypriots are responsible for the current stalemate? It is respectfully submitted that the answer to both questions is a resounding no.

Reducing American military or economic assistance to the Republic of Turkey because of the role it has played in the Cyprus problem is absurd. Americans of Turkish descent believe that animosity between our country and the Republic of Turkey is unwarranted, unjustified and counter-productive. The recorded clearly establishes the fact that at every juncture the Turkish Government showed restraint and respect for international law throughout the course of the Cypriot dispute.

During the last decade the U.S. Government has become increasingly concerned with violations of human rights throughout the world. Linking eligibility for American foreign assistance to a government's record concerning the preservation of basic human rights has been debated and, to a degree, institutionalized in our foreign policy. Based on the facts briefly described above, it is clear that Turkish actions on Cyprus were intended, and did in fact, preserve the human rights of Turkish Cypriots. Judged by our own standards Turkey should be commended, not condemned for its behavior on Cyprus.

Turkish Americans urge Congress to review the facts, to make relevant inquiries, dispassionately review the complicated history of the Cyprus conflict and act accordingly. It is respectfully submitted that Turkish actions on Cyprus do not justify the curtailment of American foreign assistance to Turkey.

Senator PRESSLER. Thank you very much.

I have a few questions for each of you. Would you each give your reaction to the 10/7 ratio of aid, and if you do not agree with that what is your suggestion? And please identify yourself.

Mr. VLANTON. I am Elias Vlanton, press and information director of the AHEPA.

The 10/7 ratio is something that Congress has mandated over the years in order to maintain a military balance in the region. We strongly support the notion of a military balance in the region and therefore support the idea of a 7 to 10 aid ratio.

Now, some will argue that it is a mechanistic——

Senator PRESSLER. You do support the 7 to 10 ratio?

Mr. VLANTON. Yes. Some will argue that it is a mechanistic or arbitrary figure. We would respond that it has provided some stability in the area, particularly some stability between Greece and Turkey in terms of a military arms buildup and in terms of their military structures. Disrupting that balance at this point would be seen extremely negatively in Greece, not only by the current Government but by the entire Greek people. This is not advisable, certainly for political reasons and probably also for military reasons.

Mr. YOUSSOUF. Mr. Chairman, I am unalterably opposed to the 10/7 ratio being continued, because I have not lost sight of where it originated. Unfortunately, it originated subsequent to the 1974 Turkish intervention and it was, in fact, a development from the mistaken perception that Turkey, in fact, represents a realistic military threat to Greece. I would ask anyone who has that concern to examine the historical record since 1947 and illustrate one example of Turkish military posturing or aggressive moves against Greece.

What happened in Cyprus should not be used to punish Turkey. In fact, it is respectfully submitted that Turkish intervention in Cyprus was necessary and cannot possibly provide a basis or a justification for a 10/7 ratio. On the 10/7 ratio, I think that what is most important as an American is to look at what is in our best interests. I think that the immense strategic importance of Turkey to the NATO alliance, as illustrated and discussed by the predecessors to this microphone this afternoon, more than justifies the abrogation of that artificial mechanistic device of a 10/7 ratio.

It makes no sense to me. It cannot be justified because of alleged Turkish aggression toward Greece because that simply has not happened, Mr. Chairman. I would ask the Congress to realistically and dispassionately evaluate the historical evidence and come to the conclusion which I think is justified, that that ratio should be abandoned because it is, in fact, contrary to our Nation's best interests.

Thank you.

Senator PRESSLER. I think there is a bill in the House regarding a national Armenian day, which is probably very provocative. But I know that issue is a very sensitive matter. I have not put my name on such a resolution.

But nevertheless, what about that? Where are we going with that issue? It is a great issue in terms of international terrorism. It is an issue of great sensitivity in our domestic politics. What is the solution?

Mr. YOUSSOUF. Mr. Chairman, at this point I would like to introduce to the subcommittee Nan Cantor, who is the executive director of the Assembly of Turkish American Associations.

She has been working quite closely with that issue, and was, in fact, at the Los Angeles trial of certain Armenian terrorists who were recently convicted and sentenced. I think she can probably help answer that question and is more qualified than I. So I will yield the microphone to her.

Ms. CANTOR. I am speaking to you on behalf of the Turkish-American community, and our concerns as far as the Armenian resolution are very American concerns. Our community has suffered under intimidation and threats for over 10 years in this country. I think what we all tend to forget is that when we hear that a consul general or an Ambassador has been assassinated, we think in terms up here, on the top.

We do not realize that, for example, when the three gentlemen—I think it was three—attacked the Turkish Embassy in Ottawa just a few days ago, the Ambassador escaped, but the sense of intimidation and threat on Turkish-Americans and on Canadian Turks is very real. We all live—and those of us who take an active role in our public, in our positions—and I am not of Turkish extraction. We suffer from threats and intimidation.

We were in Los Angeles for the trial of three Armenian terrorists who were convicted and sentenced, of attempting to kill the Philadelphia consul general in his offices. I sat in that courtroom for 6 hours during sentencing, and I can tell you it was one of the most frightening experiences. What was frightening was the looks on faces of people who I knew in the Armenian community, who looked at me as the enemy.

I would like to see Congress take the lead in defusing a situation, not refueling a situation. I believe that all ethnic communities should commemorate any events they want to in this country, but I do not know that it is in the area of Congress to take position on historic issues which are still controversial and come to a decision one way or another, particularly when there is a community in this country that does suffer and is threatened.

We cannot hold a cultural or social event in this country. We will be having a dinner for Prime Minister Ozal while he is here, and we must hire special security personnel to protect us, our offices, ourselves. We have to worry about our cars, bombs, other things. It is a very real threat.

I think, as I have been spending time in the Halls of Congress recently, I see all kinds of things going up in trucks and cars with their motors running. We are all very worried about terrorism. But we are concerned as Americans about what is happening here, and I would hope Congress, both Houses, would defuse the situation.

Thank you.

Senator PRESSLER. My last question is this. I was very intrigued with the historical chronological details regarding Cyprus. I am the new chairman of the European Affairs Subcommittee and I want to read more on this whole problem. Has there been an independent historian who has written in the last 20 or 30 years on this that you could recommend to me?

Mr. YOUSSOUF. Yes, Mr. Chairman. In fact, I will give you a copy of the book today.

Senator PRESSLER. Who is it by?

Mr. YOUSSOUF. Pierre Oberling.

Senator PRESSLER. I do not want to read something that is one-sided. I am just asking you in a very academic way.

Mr. ZAMBETIS. Mr. Chairman, we will also submit some material.

Senator PRESSLER. Do not send me any books. I just wanted to ask him the question.

Mr. YOUSSOUF. Mr. Chairman, the answer is we are both chomping at the bit to say, of course there are professional independent scholars who have submitted it. The book I found to be most recent and most germane to the entire issue is, in fact, prepared by Pierre Oberling, professor of history at Hunter College. It is called "The Road to Bellapais." It takes the 1974 crisis as a focal point, but to understand 1974 he goes back to the time of the British occupation of Cyprus and takes it all the way up to 1981, approximately, 1982.

There has also been another book published recently that I highly recommend. It was written by a Turkish Cypriot who was a former supreme court chief justice on the island. We will be happy to supply those to you. Although he is Turkish, I must admit that, as an attorney and as a man who loves the law, it is objective and I think a dispassionate evaluation and accurate history.

Senator PRESSLER. Just get me the names of them. I will get them from the Library of Congress. Do not send them to me, but I will get them for myself. Thank you. [Laughter.]

Senator Pell.

Senator PELL. Thank you, Mr. Chairman.

I would like to address this question to Mr. Zambetis. Do you support the administration request for aid or do you oppose it?

Mr. VLANTON. We support the concept of a military balance in the region. Now, there are several aid levels at which that could be done: You could increase Greek aid or you could cut Turkish aid. We feel that it is the prerogative of the Senate and the House to choose the best path of keeping that balance.

What we stress most strongly is that that balance be maintained, and that language be included that makes it clear—whatever the aid levels—that we do expect progress on Cyprus. Further, we do expect our allies, Greece and Turkey—but particularly Turkey since its troops occupy 40 percent of the island—to be forthcoming in subsequent negotiations.

Senator PELL. I still do not quite know if the bill as presently proposed, with which I presume you are familiar, you would support or oppose if you had to vote on it.

Mr. VLANTON. As marked up by the House Subcommittee on Europe and the Middle East, with a $49 million cut in Turkish aid, we would support it if the concessional aid were taken out since you would then have a rough 7 to 10 ratio.

But the concessional aid for Turkey drastically perverts the ratio.

Senator PELL. Mr. Youssouf, what would be your reaction to the same question?

Senator PRESSLER. Excuse me. I want to understand that answer. So you would oppose both the administration's bill and you would oppose the one from the House if you had to vote on it? Would you vote for the House level?

Mr. VLANTON. Without the concessional aid.

Senator PRESSLER. Would you vote for the House level the way the House reported it? That is the question.

Mr. VLANTON. No.

Senator PRESSLER. Would you vote for the administration's proposal?

Mr. VLANTON. No.

Senator PRESSLER. Would you vote against both of them as they are currently structured?

Mr. VLANTON. Yes.

Senator PELL. And my question?

Mr. YOUSSOUF. We support the administration's position regarding the fiscal year 1986 appropriation. We think it makes a lot of sense to abandon the 7 to 10 ratio. We think the evidence is overwhelming in support of the need to modernize Turkish military forces, and we would support that.

Senator PELL. Then do you support the bill as reported out by the House?

Mr. YOUSSOUF. It is hard for me to give you an easy yes or no to it.

Senator PELL. Well, we find a hard time voting sometimes, too.

Mr. YOUSSOUF. I understand that, Senator.

From our position, we would like to supplement the answer to that by giving you an indepth analysis of the bill, if you would.

Senator PELL. I would like a yes or a no, if you had to vote on it.

Mr. YOUSSOUF. If I had to vote on it today, Senator, I would say that it is better than nothing, so I would support it at this point in time. I would like to see substantial increases of military assistance to Turkey, simply because of the fact that I am extremely sensitive and aware of the long tradition of the threat represented by the Soviet Union to that section of the world.

And Turkish history illustrates completely the imperialist expansion of the Soviets in the area of the Crimea, for example. There is a real military threat there. I know they need the assistance. I would like to see it increased.

Senator PELL. Thank you.

Mr. Chairman, I would like to ask unanimous consent that we insert in the record at this point the statement of Andrew E. Manatos, submitted on behalf of the United Hellenic American Congress, Andrew A. Athens, chairman; the American Hellenic Alliance, George P. Livanos, chairman; and the PanCyprian Association of America, Philip M. Christopher, president.

Senator **Pressler**. Without objection, it is so ordered.

[The statement referred to follows:]

STATEMENT OF ANDREW E. MANATOS

Mr. Chairman, I appreciate the opportunity to testify today on behalf of the United Hellenic American Congress, the American Hellenic Alliance, and the Pancyprian Association of America.

Mr. Chairman, the Pancyprian Association of America and its president, Philip M. Christopher, feels strongly that it is wrong for any foreign assistance to go to the nation of Turkey as long as its armies continue to occupy nearly forty percent of their country of origin -- the Republic of Cyprus. The American Hellenic Alliance and its chairman, George P. Livanos, also feels strongly that the United States should let the government of Turkey understand in no uncertain terms that the United States of America will no longer tolerate Turkish foreign policy which uses American military assistance to take its first steps of aggression in the Aegean and which continues to occupy Cyprus. The United Hellenic American Congress, and its chairman, Andrew A. Athens, also believes that American foreign policy toward Greece, Cyprus and Turkey must be based on the highest of American principles of opposition to military occupations and aggressive use of American military aid against nations friendly to the United States. They believe that if we do not stand by these principles we cannot expect to continue as a world leader. They also believe that aid to Cyprus should be maintained at last year's amount of $15 million.

Mr. Chairman, I would like to encourage the Committee to focus clearly on an important development on Cyprus and its relationship to the actions of the Committee and the rest of the Congress. For the first time in ten years, the Congress singled out Turkish military aid for a reduction under the previous year's amounts and through numerous votes which drastically reduced aid to Turkey such as in the Senate Foreign Relations Committee, sent an unmistakable message to Turkey that the Congress was on the verge of radically reducing Turkish military aid unless they moved on Cyprus. For the first time in ten years, the Cyprus problem showed real movement toward settlement.

For the previous six years when the Congress provided Turkey with ever increasing amounts of military aid, no progress occured. As a matter of fact, just the year before last, when Congress substantially increased Turkish military aid, the Turkish Cypriots moved in the opposite direction from progress on Cyprus, with the unilateral declaration of independence on Cyprus.

Let me reiterate Mr. Chairman. Immediately after last year's Congressional actions which seriously jeopardized large amounts of American military aid to Turkey, serious moves toward settlement got started. It is important that all nations which receive American military aid should understand that there are strings attached.

Mr. Chairman, the Congress has developed a foreign policy tact on this issue that produced some results. The Congress would like to have the Cyprus problem out of the way, the Administration would like to have the Cyprus problem out of the way, the Greek-American community would like to have the Cyprus problem out of the way, many people in Turkey would like to have the Cyprus problem out of the way and Heaven knows the poor victims of the Cyprus tragedy would like it out of the way.

Mr. Chairman, I think we are close to a settlement. Let's not go back to Congressional policies of the previous six years that have proven that they don't work. The Congress has found the solution, please stay with it.

Mr. Chairman, on the issue of foreign aid to Greece, it is important to remember that our country is dealing with a nation and a people who stand second to none in their record of allegiance to the United States. During World War I, World War II and Korea -- every time we needed the Greek nation, they were there.

Our foreign policy toward Greece must be decided according to how it serves our national interest and how well it attracts them to our side. In Greece we are dealing with a people who are disappointed in their old ally -- the U.S. In order to understand their disappointment, let's reverse roles with them for a moment and see how we would feel. What would we think if we watched each year as Greece gave hundreds of millions of dollars of armaments to the U.S.S.R. -- each and every year. And what if each year the Greek Administration fought their parliament to keep us from getting enough military aid to defend ourselves.

And what if the U.S.S.R. amassed those very arms on their shores which are right across from Alaska when they were supposed to be used elsewhere? And, what if we read public statements by the Russians which said that Alaska should really be theirs? And what if the Russians had just a few years before used those very arms to kill 4,000 English speaking people and militarily occupy another area that they said should be theirs? And what if Greece took no action to try to stop those killings? And what if after all that, Greece came out with an official public position that America's fears of Russia were completely without foundation?

Mr. Chairman, I think we in the U.S. would be disappointed in Greece, to say the least. Yet, Mr. Chairman, if you switched the country names of Russia to Turkey, the U.S. to Greece, and Greece to the U.S., this is what many of our policy makers have unknowingly done to our friends in Greece.

If we are to keep Greece in our camp, and we must, it is necessary that we live up to our commitment to Greece in our military bases agreement and provide Greece with aid terms comparable to Turkey's. Also, we must make sure that arms to Greece be given at least a 7 to 10 ratio so that they can be secure.

Please note, I said at least 7 to 10. We need not fear Greek military aggression against its giant neighbor Turkey, but we must share our ally

Greece's fear of vulnerability. If the ratio is 8 or 9 to 10, it does not at all injure stability in the Eastern Mediterranean.

Mr. Chairman, another matter that should be made clear to the Committee is what I would call grumbling within the Greek-American community and elsewhere in the U.S. about rhetoric that has eminated from Greece.

I would like to quote from a letter from Andrew A. Athens, Chairman of the United Hellenic American Congress, to President Reagan on February 15, 1985. He said, "Any grumbling one may hear in the United States regarding matters involving Greece should not be mistaken for support for less than favorable actions against the people of that nation. The American people, particularly Greek-Americans would strongly oppose any such negative action that might be considered to be taken against Greece." As I told you last year, Mr. Chairman, there are no more patriotic Americans than those of us in the Greek-American community. As Americans, we would see it as extremely counter-productive if our nation were to act negatively toward a country and a people who have been our friends forever, simply because of some unappreciated rhetoric that has eminated from that country. I might add, Mr. Chairman, that there are many other equally disturbing statements made by people in other countries around the world that do not receive one-tenth the press coverage, State and Defense Department briefings for Senators, Members of the House and journalists, as does the rhetoric that has eminated from Greece.

The final matter that I would like to bring to the attention of the Committee involves the Greek Orthodox Patriarchate in Turkey. . Any assistance that this Committee could provide in encouraging the government of Turkey to alter its treatment of the head of the worldwide Eastern Orthodox Church would be greatly appreciated. Turkish laws which do not allow any repair work to take place in the Patriarchate if it is in excess of $1 have caused this Orthodox Vatican to fall into a state of terrible disrepair. The Turkish law that requires only Turkish citizens to attend the Orthodox seminary which trains the hierarchy of the worldwide Orthodox church has caused that seminary to be closed. The Turkish ruling that does not allow the Greek Orthodox Archbishop of North and South America, His Eminence Archbishop Iakovos, to travel to Turkey, the nation of his birth, is unfortunate. Any questions that the Committee may have regarding any of these matters can be responded to in greater detail by Mr. Andrew A. Athens, or by Dr. Anthony Bordon, the expert on this subject for the Archdiocesan Council. Any help the Committee could be with regard to this matter would be greatly appreciated by Orthodox Christians living in the United States, as well as the millions of Orthodox Christians who live in the various nations of the world.

I appreciate the opportunity to appear before this Committee and would be happy to answer any questions.

Senator PELL. I would also like to read into the record two rather pertinent paragraphs that he has mentioned here, where he says:

> Mr. Chairman, I would like to encourage the Mr. Chairman to focus clearly on an important development in Cyprus and its relationship to the actions of the committee and the rest of the Congress. For the first time in 10 years, the Congress singled out Turkish military aid for a reduction under the previous year's amounts and through numerous votes drastically reduced aid to Turkey, such as in the Senate Foreign Relations Committee, sent an unmistakable message to Turkey that Congress was on the verge of radically reducing Turkish military aid unless they moved on Cyprus. For the first time in 10 years, the Cyprus problem showed real movement toward settlement.
>
> For the previous 6 years, when the Congress provided Turkey with ever-increasing amounts of military aid, no progress occurred. As a matter of fact, just the year before last, when Congress substantially increased Turkish military aid, the Turkish Cypriots moved in the opposite direction from progress on Cyprus, with the unilateral declaration of independence on Cyprus.

So to reiterate: "Immediately after last year's Congressional action, which seriously jeopardized large amounts of American military aid to Turkey, seriously moves toward settlement finally got started."

And, Mr. Chairman, Mr. Manatos says here, "I think we are close to a settlement. Let us not go back to Congressional of the previous 6 years that have proven that they do not work. The Congress has found the solution. Please stay with it."

I think this is perhaps a somewhat more vigorous statement than by AHEPA, of which I am proud to be a member. And I would ask that this be made part of the record.

Senator **Pressler**. Without objection, it is so ordered.

By the way, Mr. Zambetis, explain what these groups are compared to yours? Do you have a different philosophy? I want to get all of these straight, and I am learning new things. How does this group's philosophy differ from yours?

Mr. **Zambetis**. They are much smaller than the AHEPA, Mr. Chairman.

Senator **Pressler**. The United Hellenic American Congress, the American Hellenic Alliance, and the PanCyprian Association of America. How do those groups differ in philosophy and size from yours? Are they rival groups?

Mr. **Zambetis**. They are much smaller groups, Mr. Chairman. We are in existence 62 years, with over 700 chapters throughout the United States and Canada. The groups that you mentioned are relatively new.

Senator **Pell**. I think what the chairman is asking, philosophically how do you differ or do you differ?

Mr. **Vlanton**. AHEPA is a fraternity that encompasses a lot of different concerns: philanthropic, educational, and so forth. The groups which you mentioned are specifically structured toward action around the Cyprus issue and the aid requests.

Our positions have differed in the past, and I am sure we will differ with them again in the future. For example, they have generally supported concessional aid for Greece, which at some points we have not. They have supported conditions on aid to Turkey often more vigorously than we have, although at times we have also supported conditions.

They are simply different organizations. They probably have a collective membership of 1,000 or less, compared to AHEPA's 50,000.

Senator **Pressler**. OK.

Senator **Pell**. Before terminating this discussion, would you not agree that their membership is vastly smaller than is our AHEPA's, but their viewpoint, as represented in the statements that I made, is reasonably representative of a large number of Greek-Americans?

Mr. **Vlanton**. That is probably true, yes.

Senator **Pressler**. Senator Sarbanes.

Senator **Sarbanes**. Thank you, Mr. Chairman.

Mr. Youssouf, I am always intrigued by a lawyer with a sense of history, but I want to make sure we get the historical record accurate. I want to turn to page 8 of your statement.

First of all, let me say, beginning in the middle of page 7, as you summarize events I do not really differ much with your account of Sampson and the coup that took place in Cyprus, instituted by the military junta in Greece, and then the difficulties that arose in terms of guarantor power reaction to the deposing of the constitutional president of the Republic.

But I would like to submit to you, depending on how you define the term "Turkish intervention," that the statement, "The Turkish intervention in Cyprus provoked an immediate and hostile response by the United States Congress" is not accurate.

There was, as you know, I assume, a Turkish intervention on July 20 in response to the coup. At that time there was not an immediate and hostile reaction by the Congress. The coup collapsed—or the junta collapsed. Karamanlis came back to Greece, democracy was restored, a ceasefire was arrived at on the island, and the parties went to Geneva for peace talks under Callaghan's chairmanship.

Is this all correct? What I am now reciting, would you agree with all of that?

Mr. YOUSSOUF. Absolutely, Senator.

Senator SARBANES. Gunes and Mavros were in Geneva meeting with Callaghan, trying to work out a resolution of the situation on the island. And then, while those talks were taking place, there was a major Turkish military action on Cyprus on August 14. And it is that latter action that resulted in 200,000 people having to flee their homes apd thousands being killed and injured, missing, and it was subsequent to that military action that the Congress moved to make a strong response.

I think it is important for the record to show these two Turkish actions and the fact that the strong response came on the heels of what I have to regard as an aggressive action on the 14th of August, given that the parties were at the peace table trying to work out an arrangement for the future of the communities on this island.

Mr. YOUSSOUF. Senator, if I may respond. On July 30, 1974, representatives of Great Britain, Greece, and Turkey at the Geneva Conference signed an agreement which contained 10 major provisions. The areas in Cyprus——

Senator SARBANES. Could I ask what you are reading from?

Mr. YOUSSOUF. Yes. I am reading once again from the Oberling book, "The Road to Bellepais: Turkish Cypriot Exodus to Northern Cyprus," published 1982, Columbia University Press.

This contains a synopsis of events which preceded the second intervention. The 10 points I think were very important. All armed forces, including the irregular forces, were to desist from offensive hostile activities. A security zone, closed to all armed forces except those of the U.N., was established at the limit of the areas occupied by the Turkish Armed Forces.

Greek and Greek Cypriot forces were to immediately withdraw from Turkish Cypriot enclaves which they had occupied. All the Turkish Cypriot enclaves were to be protected by a security zone closed to all armed forces except those of the United Nations.

Military personnel and civilians detained as a result of the recent hostilities were to be exchanged or released. Measures were to be elaborated "within the framework of a just and lasting solution acceptable to all parties concerned."

New talks were scheduled for August 8. Representatives of the Greek Cypriot and Turkish Cypriot communities were to be invited to participate, and the three foreign ministers noted the existence in practice on the Republic of Cyprus of two autonomous administrations.

It was a successful agreement. It was important. The Turks hoped that it would put an end to attacks—and I will read directly from Mr. Oberling— "that it would put an end to attacks on the Turkish Cypriot population by the national guard"—and this is the national guard that the "central government of Cyprus" had armed and equipped—"and by EOKA-B," which was a subunit of EOKA that was subsequently created, that was in fact more aggressive and more hostile.

Unfortunately, the Greek Cypriot population dragged their feet when it came to complying with the provisions of this agreement, and by the time the second Geneva Conference got under way on August 8 they had not yet started to withdraw from the Turkish Cypriot enclaves, as they were obligated to do by the first Geneva accord. And in fact, violence ensued directed against the Turkish Cypriot population.

It was only subsequent to those events and subsequent to what you accurately pointed out were the events at the first Geneva Conference that the second operation began. I submit to you once again, Senator, that that second operation became necessary, not because of a Turkish desire to expand or to annex Cyprus, but in fact by the necessities of preserving the life and integrity of the Turkish Cypriot population.

Senator SARBANES. Well, we differ on that point, and it is very important to recognize when the congressional reaction came. I have spoken to Callaghan himself on this, and of course he was at Geneva presiding over this conference. It was going on. I mean, the parties were at the table, trying to negotiate the resolution of it, when the military assault of August 14 took place.

Mr. YOUSSOUF. I understand that, Senator. Yes, you are correct.

Senator SARBANES. All right. Now let me ask you this question. I do not want to pursue this too much. But I read your statement very carefully and listened to you, and I take it that it is essentially your view that there is no way to resolve the situation on the island?

Mr. YOUSSOUF. No, Senator. Respectfully, if that comes across from the statement, that is then my lack of artfulness in preparing the statement and presenting the information. It is my view that there is in fact at hand and was in fact at hand in January 1985 a very realistic method for resolving the Cyprus dilemma, and that was by the creation of a bicommunal federated state.

Analogizing what those negotiations were to the American experience, I would respectfully point out that it was leading toward the creation of two separate states, with governments in place, with operations in place, but giving to a central federal government the responsibilities for the conduct of foreign affairs and taxation and policies, things of that nature.

That was the settlement that was at hand in January 1985, that Mr. Kyprianou, who had helped create it, rejected when he arrived in New York. And I think that might work. I think that the Turkish Cypriot people would like nothing better than to see that work. It would be in their best interests. It would end years of hostility and ensure their survival, and that is all they really care about.

Senator SARBANES. Is that what they want, or would they prefer to have an independent state?

Mr. YOUSSOUF. My perception from my discussions with my own family members and people that I know inside Turkey is, what they want more than anything else is peace and security. And if that can be obtained through the creation of a federal republic, which they are willing to try, they will then support it and make every effort to see it work.

Senator **Sarbanes**. Do you think they would prefer an independent state or to be joined with Turkey?

Mr. **Youssouf**. I know that there is no desire among anyone that I have spoken with to be joined with Turkey. I do not think Turkey wants Cyprus as part of its nation. There has never been a move in that direction to my knowledge.

Turkey intervened to preserve the Turkish Cypriot community, not to annex the island nor to partition the island. The partition was a military reality, necessitated by the history that had preceded it.

Senator **Sarbanes**. Would you expect the Turkish troops to leave the island of Cyprus?

Mr. **Youssouf**. I think the Turkish troops, forces, could be substantially reduced in the near future. Whether or not they can be totally removed is a very complex question, because of the very real fears, based on historical facts which we have discussed today, that if they left the relatively small population of Turkish Cyprus would be basically defenseless.

If there was a guarantee, an assurance that there would be no communal violence, I think that Turkey then could then withdraw its troops in good conscience and the people that I am talking about today, the Turkish Cypriots, would be very happy to have that peaceful existence without those troops.

But until there is some guarantee that the terrible events that I have described preceding 1974 will not occur, I respectfully submit that those troops should not be withdrawn and cannot be withdrawn. It is just too fraught with peril.

Senator **Sarbanes**. I listened carefully to your colleague and I am sympathetic, obviously, to the apprehension that exists because of terrorist acts. It is my understanding that responsible leaders of the American Armenian community have themselves condemned terrorism. Is that not correct?

Mr. **Youssouf**. To my knowledge it is, Senator.

Ms. **Cantor**. To my knowledge, what tends to happen is that people in responsible positions—and I have been on the Hill and I have spoken to people—do say that they condemn the violence, but they always seem to say, but you have to understand why.

I compare the situation to President Reagan's recent statement during the right to life march here in Washington. He was very clear in his statement, there is no justification for violence. There were no but's, there was no explanation, there was no historic discussion about the past. There was a statement about violence.

I think that in our perspective, from our community's perspective, we believe there is a historic controversy here, that the events that occurred have not been fully studied. Archives are closed in all areas, and Congress I would hope would not get into the business of certifying history.

Senator **Sarbanes**. Let me pursue that question, then. The Germans are quite open in admitting that a holocaust or a genocide took place, and they have proceeded from that acknowledgement in trying to address that historical fact.

Do you deny a historical event known as the "Armenian Genocide?"

Ms. CANTOR. Let me preface my remarks by saying that I happen to be an American Jew and that I therefore am very sensitive on the subject of genocides and holocausts. I think one has to be very careful how one terms things.

I do not believe—and I come from an academic background—that the term "genocide" can be applied. I think very serious things happened, but they happened in both communities.

Senator SARBANES. Then you would not apply the term to the 6 million Jews who were killed by the Nazis?

Ms. CANTOR. No, I would term that genocide. I think what I would like to say——

Senator SARBANES. I am sorry, I misunderstood you. I thought you were denying the term in its entirety.

Ms. CANTOR. No, I am denying it in terms of being applied to the Armenian experience.

What disturbs me greatly is that no one discusses the events in the context of what was going on during that period of history in eastern Anatolia or the lives of 2.5 million Moslems that were lost during that period, and no one is interested in investigating that side of it.

John Dewey--and I do not have the paper with me, Senator, but I will send it to your office—made a very eloquent statement in the twenties about the events that occurred in eastern Anatolia. And one of the things he said, that there were victims on both sides. And I think we need to look at the question, and I think that would be responsible.

I do not think it is responsible—I am sorry, but I feel very strongly about this, perhaps because I get involved in it directly in my own situation every day. I do not think it is responsible for Congress to get involved at this point in deciding whether or not the term "genocide" is appropriate or not.

Senator SARBANES. Do you think Ambassador Morgenthau's accounts were accurate?

Ms. CANTOR. No, I do not, sir. Ambassador Morgenthau was never out in that area, and there were other remarks which he has made over the years which again show a perhaps one-sided view.

There is a lot of information I would be happy to send to your office for you to look at. But again, because——

Senator SARBANES. I have probably seen it.

Ms. CANTOR. I hope so. I think there is a controversy and I do not think it belongs in this body. I would prefer that it be discussed by academics and left to academics.

Senator SARBANES. Do you agree with that, Mr. Youssouf?

Mr. YOUSSOUF. Senator, I think that it is extremely important that I emphasize and preface my remarks by saying, as an attorney with a love of history—and obviously you and I share that love of history—one of the most important and most difficult things that any of us could attempt to do is to test the validity of a historical position in a legal format.

The events of 1915 through the 1920's in central Anatolia can only be understood in the larger context of what transpired. I submit to you that what troubles me specifically about attempting to somehow link American foreign policy to Turkey toward events which transpired 70-some years ago is that the government which existed at that time no longer exists. The people largely who were responsible for the policies which led to the things that occurred, that we have read about and that we know occurred, are no longer in power, no longer exist.

Senator SARBANES. All the more reason, then, to move to a statement of its occurrence. In other words, it is not this government and it is not these people. I take it that is your point.

And yet, you continue. There is an almost flat denial to the Armenian community of something that they regard, of course, as a critical event in the history of their people.

Mr. YOUSSOUF. Senator, if I may, at this point I would like to point out, too, that I was privy to the Los Angeles trial of the Armenian terrorists who were convicted, and in fact reviewed the transcripts and the proceedings of the trial.

What disturbed me the most is the fact that in that proceeding what emerged was a very clear attempt on the part of the young people engaged in these activities to paint themselves as heroes avenging the historic wrongs that we are discussing today. That fascination with the past, so that the past becomes a cause celebre for the current events and atrocities that we talked about, is a troubling point.

I also have to take a very careful look at the term "genocide." As I understand genocide, genocide was in fact the intentional policy perpetrated by Nazi Germany in the ruthless extermination not only of Jews, but homosexuals, Russians, and Eastern Europeans. It was a policy enunciated by the government at that point in time.

I think that is the problem with the Armenian genocide resolutions that I have seen, and that is that they are analogizing what happened in central Anatolia during those years to what went on in Nazi Germany. Respectfully, that historic debate is clearly beyond my competency, but it is a debate that is ongoing.

And it has to be carefully structured and evaluated, I think, before the Congress of the United States links foreign policy determinations or expressions of the sense of the Congress to those events.

Senator SARBANES. The questions that I am putting to you at the moment are not related to some resolution before us. They are related to the more general proposition of addressing the assertion by responsible people in the Armenian community—I am not talking now about irresponsibility—that these events occurred and that it is being denied that they took place.

Mr. YOUSSOUF. I think what is denied, Senator, is the term "genocide." That is what I understand is the major problem.

Ms. CANTOR. May I follow what Mr. Youssouf said? It is from my understanding of the reading that I have done over the years, that there is a tremendous difference in what went on in eastern Anatolia, if we are going to get into the history, and what went on in Nazi Germany.

The population of the Jews in Europe was a noncombative population. What was going on in eastern Anatolia was part of a process of creating nation-states throughout the whole area as the Ottoman Empire was slowly being taken piecemeal. The Armenians, many of them lived in Anatolia, in eastern Anatolia. They did not comprise a majority of any one area. They were interested, as many groups are, in creating a state of their own, a nation of their own.

But it happened that it was an area where many of them lived which was part of the Ottoman Empire and the last part in eastern Anatolia. You and I are not going to agree on the history, but I take the position that it was a civil war. Something happened, but it was not a genocide. And to call it a genocide is irresponsible, I believe, on the part of Congress.

There is historic difference. For example, in one major linkage, if we are going to talk about the Jewish experience, I know that when this resolution has been brought up over the last few years, many Members of Congress have quoted Hitler as stating "Who today remembers the Armenians?" New research which is about to be published by an American academic and also, by the way, by an Armenian in England, who made the statement himself and I read it in one of the Armenian papers—that statement was never substantiated, yet it has been used as propaganda over the years to link the two experiences.

And when one looks at that, when one looks at the fact that the so-called Talat Pasha telegram has never been proved to exist, there were no orders to exterminate, 250,000 Armenians remained in Istanbul, were never touched, were never involved in the deportations because they were not in the area where the wars were going on—when you look at that, you begin to say maybe we have to look at it, as academics are doing right now, and re-evaluate our interpretation.

I would hope the Congress would not act.

Senator **Sarbanes**. Perhaps we should have the resolutions before us and have a full-scale hearing, in which you could present the point of view you have just enunciated and Armenian American citizens would have the opportunity to detail their case.

Do you think that would be a constructive way to proceed?

Ms. **Cantor**. I do not believe that this is the proper body for that kind of discussion. That is my problem with the whole discussion. There are some questions I do not see fitting into what Congress has the time, and I know you all have a lot of things before you on this plate. But this is the kind of thing, this to me should be left to the communities themselves.

And I have in fact this week been to see Mr. Pashayan and Mr. Coelho, trying to create areas where we can talk, so that we do not look at each other across tables, so that we learn to communicate with each other again. The hostility is what I am worried about, and I do not believe in increasing it. I believe in decreasing it.

Senator **Sarbanes**. I will close with this observation. A good deal of the hostility stems from the fact of the denial of the occurrence of these events.

Ms. **Cantor**. I think the denial is because there is not the belief that it was a genocide, and that denial will remain when it is couched in those terms. I mean, that I cannot change.

Senator **Sarbanes**. I have no further questions.

Senator **Pressler**. Senator Pell.

Senator **Pell**. Thank you, Mr. Chairman.

There is one point on which I think both of you could agree, and that is in connection with the educational program, the Cyprus American scholarship program. It helps both young Greek Cypriots and young Turkish Cypriots get a college education, in view of the fact that there is no college or university on Cyprus.

The administration has sought to reduce the amount of aid for Cyprus, much of which was spent on this program, from $15 million that was authorized last time, to $3 million. I would just like to ask each of you. Mr. Zambetis, do you strongly support this particular program?

Mr. VLANTON. Yes, AHEPA strongly supports the program. We would also like to see some of the funds earmarked for cooperative development projects on the island of Cyprus that would bring Turkish and Greek Cypriots together to work on projects that benefit everyone. But we certainly support the scholarship program.

Mr. YOUSSOUF. Senator Pell, absolutely, the scholarship program is essential. Education goes a long way toward resolving problems.

I point out to you that the Turkish Cypriot community on Cyprus is in fact a very well educated community, by and large, largely due to this kind of assistance in the past. And I support it. I think it is good. It just should be evenhandedly administered.

Senator SARBANES. Do you have any reason to think it is not? Because the money has been provided to benefit both communities, and it is our understanding, and to the extent we have checked it, that that is the case.

Mr. YOUSSOUF. Senator, I do not have any information or knowledge that it is not. I am just pointing out that it is a very personal concern to me that, because of the hostility on the island and the difficulties that have occurred in the past, that any of the economic assistance that our country gives should be available to all people on the island.

Senator PELL. It is.

Mr. YOUSSOUF. That is the only thing I am emphasizing. I am not saying, when I emphasize that, that I have knowledge that it is not being done.

Senator PELL. Well, I am glad then that there is one thing on which you are both in harmony.

Senator PRESSLER. I want to thank all of our witnesses very much.

This hearing is closed.

[Whereupon, at 4:43 p.m., the subcommittee adjourned, subject to call of the Chair.]

SECURITY AND DEVELOPMENT ASSISTANCE (WESTERN HEMISPHERE AFFAIRS)

TUESDAY, MARCH 26, 1985

United States Senate,
Subcommittee on Western Hemisphere Affairs
of the Committee on Foreign Relations,
Washington, DC.

The subcommittee met at 4:43 p.m., in room SD–419, Dirksen Senate Office Building, Hon. Jesse Helms (chairman of the subcommittee) presiding.

Present: Senators Helms, Kassebaum, Murkowski, Pell, Dodd, and Kerry.

Senator **Helms**. The committee will come to order.

We are grateful to our three witnesses for their patience. Everybody is trying to be two places at one time today, and it is not easy. On the agenda we have the Honorable Langhorne A. Motley, better known to us as Tony, Assistant Secretary of State for Inter-American Affairs; Nestor Sanchez, Assistant Secretary of Defense for Inter-American Affairs; and Victor M. Rivera, Assistant Administrator for the Bureau of Latin American and the Caribbean, Agency for International Development.

I have the prepared statements of each of you. We will be glad for you to summarize your statement with the understanding that all of the statements in their entirety will be included in the printed record for the examination and edification of Senators. But if you feel the need of proceeding with the entire statement, that will be fine.

Mr. Motley, we welcome you and the other gentlemen, and you may proceed, sir.

STATEMENT OF HON. LANGHORNE A. MOTLEY, ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS, DEPARTMENT OF STATE, ACCOMPANIED BY HON. NESTOR D. SANCHEZ, ASSISTANT SECRETARY OF DEFENSE FOR INTER-AMERICAN AFFAIRS, DEPARTMENT OF DEFENSE; VICTOR M. RIVERA, ASSISTANT ADMINISTRATOR, BUREAU FOR LATIN AMERICA AND THE CARIBBEAN, AGENCY FOR INTERNATIONAL DEVELOPMENT; AND MARSHALL BROWN, DEPUTY ASSISTANT ADMINISTRATOR FOR LATIN AMERICA, AGENCY FOR INTERNATIONAL DEVELOPMENT

Ambassador **Motley**. Thank you, Mr. Chairman.

I think we may have even a better deal for you than that. We have agreed among ourselves if you will take the statements, I will just give a brief policy overview and then put ourselves at the disposal of the committee for questions.

Senator HELMS. That is fine.

Ambassador MOTLEY. Mr. Chairman, what we have asked for in this administration request as reflected in the testimony is $1½ billion in economic assistance and $357 million in military aid for Latin America and the Caribbean in fiscal year 1986. And I think it reflects a call for a continuation of our current policy, a consistency in it, because I think it is working. It is working in El Salvador, worked in Grenada, and throughout a hemisphere which is becoming more and more democratic.

The Hill participated last year in some significant legislation with regard to Central America, and that is reflected again in this continuation process that we are talking about.

What I would like to focus on are some of the basic trends we see in the future and some of the significant ones that have been evident in the immediate past. And, of course, what comes to mind first of all is this remarkable trend toward democracy that has been happening in our hemisphere.

You are familiar with all of the facts and figures and numbers. Over 90 percent of our neighbors to the south now live in countries that are in democracies or in full transition. In fact, you can say that in the last 4 years no democratically elected government has been replaced by a coup of any nature. It is easier, in fact, to count those countries that are not making progress toward democracy among our 33 neighbors. That is down to about 7 countries that we feel are not making progress, among them a couple of our friends.

The economic aspect is the underlying concern that we have had in the past, and I think it is one we have to watch closely in the future. It is hard to generalize with 33 different countries with 33 different types of debt rescheduling, 33 different sets of problems, but generally speaking I think you can find that the downward plunge that we saw in GNP, GDP and per capita GDP from 1979 through 1984 has now bottomed out in most countries, and there are, in fact, in a couple of them a modest per capita GDP increase, specifically in Costa Rica in Central America and some others. And some of the belt-tightening measures that they have taken to date have not been without unrest, as we saw in the Dominican Republic and in Jamaica.

An old problem, drugs, has, I think, a new awareness with it, and that is a marriage of convenience that has come with terrorism. And I think the marriage of convenience of those two, what now is termed as narco-terrorism, is something that we have to take a very close look at and be prepared to deal with.

And I would just finish with some of the principles or policy guidelines that I think guide this request, Mr. Chairman. Among these principles is that we try to stand by our friends. We accept our responsibility to lead, recognizing that we cannot do it alone or without consultation, and there are limits on U.S. power. But the defense of U.S. interests cannot be left to others.

I think if this policy and these requests are followed, our leadership will be shown to be consistent. I think that our friends have suffered from swings of pendulums backward and forward, and we are trying to provide a consistent point.

We try not to get bogged down in single issue politics, but I think it distorts both bilateral relations and multilateral relations. And we think that it is in our interest to conduct as much of our policy as possible, the meat and potatoes of it certainly, outside of the airwaves or the printing presses.

With regard to Central America, probably the best way to outline what we are trying to do is to establish the parameters of U.S. policy; and I think two things that I find in going around the country, and certainly I know that the President believes, is that the parameters are outlined by two things that the American people do not want. They do not want a second Cuba, and they do not want a second Vietnam. And those are the parameters within which fit the policies that we try to put forward.

By a second Cuba I mean institutionalizing another well-armed Communist state on the mainland supported by the Soviets and working actively against us and our friends in an exportation of revolution. And by a second Vietnam I mean a prolonged conflict that involves U.S. combat troops with no clear goal, and no end in sight consistent with the protection of strategic American interests.

And so I think our policy has been designed to avoid either one of those extremes. That includes the Jackson plan; that includes the program for the Freedom Fighters; it includes some of the other programs specifically in Central America.

If you think back a year ago, prior to the adoption of the Jackson plan by this body and the House, skeptics thought we were heading for a second Vietnam in El Salvador, and I think they were wrong on that. And El Salvador is no second Vietnam, and no second Cuba either. And so I think those two parameters lay it out fairly well.

With that, Mr. Chairman, I will stop, and we will be happy to make ourselves available to questioning by committee members.

Mr. RIVERA. I would like to add that with me is Marshall Brown, Deputy Assistant Administrator, and both he and I would be glad to answer any questions you may have.

Mr. SANCHEZ. Mr. Chairman, we are prepared to take your questions.

[Ambassador Motley's, Mr. Sanchez' and Mr. Rivera's prepared statements follow:]

PREPARED STATEMENT OF
THE HONORABLE LANGHORNE A. MOTLEY
ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS
BEFORE THE FOREIGN RELATIONS COMMITTEE
U.S. SENATE
MARCH 26, 1985

The Administration has requested $1551 million for economic assistance (including PL-480) and $357 million for military aid for Latin America and the Caribbean in Fiscal Year 1986.

The assistance is to advance U.S. national interests by helping our neighbors to defend democratic institutions and reduce their vulnerability to violence bred by poverty and injustice and in many cases abetted by hostile external forces. We cannot solve our neighbors' problems, but we do have the means to help them along the path of economic growth with freedom.

This prepared statement has three parts:

-- a policy framework;

-- a discussion of the FY 86 assistance requests for the three main regions for which we are proposing programs -- Central America, the Andes, and the Caribbean; and

-- a review of the situation in Nicaragua.

I. THE POLICY FRAMEWORK

Since the earliest days of the Republic, the United States has recongnized that it cannot be indifferent to its neighbors. The independence of Latin American governments from forces outside the hemisphere -- first from the European monarchies, then from the Axis powers, and more recently from Soviet communism -- is a primary U.S. interest. It is an interest shaped both by the necessities of security and geopolitics and by the moral concerns rooted in our traditions of political freedom, equality of opportunity, and the physical security and integrity of the individual.

Conditions in Latin America have changed dramatically over the last quarter century. On the positive side, social modernization and cultural progress are transforming Latin American life and politics. Together with the independence of the former British colonies in the Caribbean, these changes are propelling a far-reaching trend toward democracy. And throughout the 1960s and 1970s, Latin American and Caribbean economies grew in real terms an average of more than 6% a year -- double the rate of population growth.

But there have been some major negative developments as well. First, though economic growth was impressive, it was uneven and did not reach many poor people. Then the world depression, increased costs of oil and borrowed capital, and lower prices for locally produced commodities hurt just about everyone. Second, Cuba has become a Soviet surrogate. Cuba has almost 40,000 soldiers in Africa, 3,000 security personnel in Nicaragua, and a Soviet-trained intelligence apparatus that has engaged in everything from narcotics trafficking to terrorism.

These changes create an increasingly complex environment. U.S. interests are threatened in new ways. But there are no simple or quick solutions. The shifting Latin American scene has changed the terms on which we must relate to our neighbors. Latin America has grown too much for the United States to attempt to act unilaterally or without consultation. There are limits on U.S. power. But the defense of U.S. interests cannot be left to others; it requires an active U.S. diplomacy backed by power, resources, and imagination. If we are truly committed to democracy, for example, we must nurture it -- not just this year and next, but as a permanent and integral part of our foreign policy.

Leadership must be exercised wisely. There are two things that the American people do not want in this region so close to home: they do not want a second Cuba, and they do not want a second Vietnam. By a second Cuba, I mean the institutionalization of another well-armed communist state, this time on the hemisphere's mainland, supported by the Soviet Union and working actively against U.S. interests and friends in the region. And by a second Vietnam, I mean a prolonged conflict involving U.S. combat troops with no clear goal and no end in sight consistent with the protection of strategic U.S. interests. The American people want and will support a policy which serves our interests while preventing both a new Cuba and a new Vietnam.

Finally, we must be consistent. The many swings in the pendulum over the last 25 years have generated both confusion and cynicism. Our security, our well-being, and our principles demand a policy that is consistent, bipartisan and durable.

The assistance we have requested provides the essential elements for such a policy.

We must facilitate equitable economic development -- important for our own economy and for the well-being and political stability of our neighbors. We must encourage free trade, private initiative, and economic restructuring to help renew our neighbors' demonstrated potential for growth and to increase social and economic opportunity.

We must support democracy and the common security -- the achievement and preservation of democracy are now both more necessary and more possible than in the past. We must back the efforts of Latin Americans to implement political and judicial reforms, to strengthen respect for human rights, and to provide honest and efficient constitutional government. We must support peaceful evolution against violence, guerrilla warfare, or "power-sharing" at the point of a gun, whether the gun is wielded by a Communist or a Fascist, by a narcotics smuggler or a terrorist.

The democratic surge reflects a palpable hemispheric determination to establish and protect governments responsive to their own peoples. The depth of participation in increasingly open political systems reflects long-term developments -- including the revolutions in communications and expectations -- and a desire to repudiate violence and create a bulwark against dictatorships of both the left and the right.

Progress toward democracy is hemisphere-wide. Belize and Grenada have held democratic elections and installed new governments under their parliamentary systems. An elected civilian president has taken office in Panama. In Ecuador there has been a peaceful transition from one party to another. The changes in Brazil and Uruguay are milestones for those nations and for the hemisphere. More of our neighbors are living in countries with elected, civilian governments than ever before.

As broadly-based and potent as the hemispheric trend toward democracy is, the transition sometimes encounters stubborn obstacles. Chile is a case in point. The government has so far failed to follow through on its own transition commitments; the various members of the political opposition have not yet reached agreement on a clear basis for talks with the military; and the communists are not interested in compromise.

Our objective in Chile is to promote the restoration of democracy by encouraging dialogue between the pro-transition forces within the government and the pro-negotiation forces in the opposition. We cannot guarantee a neat transition process in Chile. We can only guarantee that our policy is committed to helping Chileans themselves resolve the issues that are obstructing a timely and successful restoration of democracy.

In Central America, only Nicaragua remains defiantly anti-democratic, having traded a tyrant of the right for a tyranny of the left. The Contadora process reflects both the progress of democracy and the hope that Nicaragua will join in it. The nations of Central America have agreed that for any regional peace agreement to last, open political systems must be not just an ideal or a legal commitment but a practical reality. They know that their future depends on working together and not allowing the pendulum to swing back -- and on their not allowing outside powers to impose a new dictatorship in their midst.

The threat is real. Between 1981 and 1984, Soviet military aid to Cuba alone came to more than $2.5 billion. Nicaragua now has over 300 tanks and other Soviet-bloc armored vehicles. The latest acquisition was the MI-24 ground attack helicopters, the same weapon the Soviets use in Afghanistan. Grenada's New JEWEL dictatorship had three secret military agreements with the U.S.S.R. -- and Soviet-supplied artillery, anti-aircraft weapons, armored personnel carriers, and rocket launchers.

As in Cuba, a modern dictatorship backed by arms and totalitarian controls can retain power even when its economic policies are disastrous. But a democracy incapable of addressing major economic issues will be no more permanent than the traditional dictatorships of the past.

Our neighbors have in large part taken the often painful steps necessary to help end the severe economic contractions of the early 1980s. Real per capita income grew about 0.2% in 1984 -- not much, but better than the declines of 5.8% in 1983 and 3.3% in 1982. However, vigorous U.S. economic growth in 1984 created new export opportunities. For example, U.S. nonpetroleum imports from the region for the first 11 months of 1984 were up 19% over 1983. The trade balance for Latin America with the rest of the world has improved significantly as well, from a negative $2 billion in 1981 to an estimated $37.6 billion trade advantage in 1984.

Structural adjustments by debtor countries have lowered government expenditures, bringing them more in line with government income; they have restricted imports of nonessential goods to save foreign exchange; they have adjusted their exchange rates to reflect economic reality and breathe new life into their export sectors; and they have worked with the international financial community to restructure their debts and ensure continued orderly debt servicing. They have reallocated scarce resources even as those resources fell.

The United States is doing its part. We have helped to manage the immediate debt crisis by encouraging private lenders to maintain prudent involvement in lending and rescheduling; working with multi-lateral lending institutions to assist with immediate resource needs, necessary economic reforms, and longer term rescheduling; working with the Congress to prevent protectionist measures from inhibiting Latin American access to our markets; and encouraging Europe and Japan to open markets to Latin American goods and to provide additional financial resources.

The multi-year reschedulings underway in Mexico and Venezuela are positive developments. The second-tier, or smaller debtor, countries must now also deal with their debt burdens in ways that allow for both orderly servicing and economic growth. They must continue to restructure their economies to bring them into line with the world economic environment in which they must operate. In the short term, this restructuring can be painful to our democratic neighbors. The recent disturbances in Jamaica over price increases designed to limit the fiscal deficit illustrate the strain some of our democratic friends face. So do the riots in the Dominican Republic in April 1984 which led to 60 deaths after President Jorge Blanco moved to place the country's economy on sounder footing.

Illegal drug production and trafficking are another threat to democracy and effective government. Historically, some countries were lukewarm to joint efforts to fight drug production and trafficking. Some had taken a position that illegal drug activities were essentially a U.S. problem -- that once our own consumption came under control, the problem would disappear in their countries. But now illegal drug consumption has become a serious problem in many Latin American societies. As in our country, the problem is not limited by social class or geography; it is pervasive and tragic.

Illegal drug trafficking has existed for dacades in Latin America, but links between drug traffickers and political terrorists are a new phenomenon. Traffickers and terrorists both operate in a shadowy underworld of clandestine and criminal activities that leads readily to a symbiotic relationship. Terrorist groups have been known to finance their operations through activities associated with drug trafficking, as well as bank robberies and kidnappings.

In 1982 we found that the Cubans had been using a Colombian narcotics ring to smuggle both arms and funds to Colombian M-19 guerrillas. When the Colombian armed forces and national police entered the town of Calamar in February 1984, they discovered that the guerrilla Revolutionary Armed Forces of Colombia had peasants cultivating hundreds of hectares of coca plants. Nicaraguan officials have been indicted in both the United States and Canada for involvement with illegal drugs.

On November 1, 1984, FBI Director William Webster announced that the agency had thwarted a drug-financed plot to assassinate the President of Honduras and overthrow his administration. The FBI confiscated 345 kilos of cocaine -- with a wholesale value of $10.3 million -- that was to be used to finance this plot.

Even when no direct links exist, narcotics trafficking and political terrorism feed on each other and threaten U.S. interests and the basic fabric of democratic societies in the hemisphere. They promote corruption through bribes and intimidation and can undermine confidence in public institutions. Drug runners and terrorists strain the capabilities of public security agencies.

They control territory and impose their will on an unconsenting public. And they are backed up by sophisticated international networks.

The narcotics traffickers have become a terrorist threat in themselves. They've murdered civilian drug eradication workers in Peru and public officials from small-town judges to the Minister of Justice of Colombia. They have threatened to murder American diplomats in retaliation for the extradition of Colombian drug dealers to the United States.

In Mexico, drugs were behind the vicious, terrorist-style kidnapping and murder of DEA agent Enrique Camarena. A meeting last week between Attorney General Meese and his Mexican counterpart examined our cooperative drug enforcement efforts and underscored the commitment of both countries to work together to combat narcotics traffickers and drug-related corruption.

II. FY 86 ASSISTANCE

A. Central America

We are in the first year of implementation of the recommendations of the National Bipartisan Commission on Central America. Although it is less than a year since Congress approved the new funding levels, the longer term focus recommended by the Bipartisan Commission is beginning to take shape. Invaluable technical training and scholarship programs are underway. We are developing projects for leadership training and support for democratic institutions. We are working with governments and legal organizations to improve the administration of justice. Nutrition and health programs have been increased and lives saved. The Trade Credit Insurance Program has been established. We are looking for the most effective way to strengthen the role of the Central American Bank for Economic Integration.

As all of us from Secretary Shultz on down have stressed, policy consistency is necessary in order to pursue our interests in the economic and political development of Central America. Current policy is working, and we must stick with it. Without consistency and perserverence we will fail -- despite our good start and intentions. We need the reliability of a multi-year commitment and the confidence that this commitment will continue to be tied to equity, reform, and freedom.

We propose to continue our support for economic stabilization and adjustment in FY 1986 with $600 million in ESF. This assistance helps governments address critical balance of payments problems, provides resources needed for imports of basic commodities, and generates counterpart funds that governments can use to address destabilizing socio-political problems. In addition to ESF we propose $269 million for development assistance

-- for programs such as agricultural development, education, family planning, and health and nutrition.

To help professionalize and modernize local military forces so as to make them aware of the positive role they can and should play in democratic society and to enable them to deal with Soviet and Cuban-supported violence, we have requested $236 million in Military Assistance Program (MAP) funds, $14 million for Foreign Military Sales (FMS) credits, and $4.1 million in International Military Education and Training (IMET) funds for FY 1986.

B. The Andean Region

The five Andean countries -- Bolivia, Colombia, Ecuador, Peru and Venezuela -- all have democratically elected governments. They must deal in differing degrees with serious economic problems, coupled in some cases with the need to cope with the terrorism of guerrillas and narcotics traffickers. These countries merit U.S. support.

The only new economic assistance program for this fiscal year is an ESF program for Ecuador, Peru, and Bolivia. The economies of Peru and Bolivia, along with their democratic systems themselves, face very serious challenges. Both are scheduled to hold presidential elections this year. Each has so far had great difficulty in dealing with the impact of grave natural disasters, low commodity prices for exports and the consequences of past policy errors. Ecuador, on the other hand, is pursuing sound economic policies, although its recovery, too, is tenuous.

We propose an ESF program of $70 million and development assistance of $57.4 million for these three countries. To strengthen peaceful political processes, defend against anti-democratic violence, and aid the anti-narcotics struggle, we have requested $24 million in Military Assistance Program (MAP) funds and $37.5 million for Foreign Military Sales (FMS) credits.

This program is not by itself the answer to all their economic and social difficulties. It is, however, an incremental resource, and thus an added incentive for these democratic governments to engage the international financial community in ongoing dialogue. It is a means to show concrete support for their undertaking the necessary steps toward stabilization. It is a small price to pay for the chance to participate directly in the resolution of problems in countries important to the future of the region.

C. The Caribbean

The countries of the Caribbean must deal with high debt and unemployment, poor traditional export markets, internal disequilibria, and inadequate infrastructure. The island states of the Eastern Caribbean must also establish their own economic viability in the world marketplace.

The problems are daunting, and solutions are not available in the short run, no matter how great the will. Markets for sugar and bauxite, two mainstays of the region, are unlikely to recover in the short term, and major investments in these industries are being abandoned. The entire world economy, from the perspective of these island nations, has undergone a major negative change over the past few years.

Economic stabilization and restructuring are necessary to build a foundation for sustained economic growth and development. Without support from the U.S. and others, improved policies will result in stabilization and renewed growth at levels of economic activity well below those of recent history.

The more open U.S. market achieved by the Caribbean Basin Initiative can help. For our Caribbean neighbors to seize that advantage requires, among other things, foreign exchange markets which allow exporters and others in the private sector to increase export production and sales. It requires fiscal policies that stimulate investment and allow the private sector to compete equally for credit and resources with the public sector. It requires open economies receptive to investment from both domestic and foreign sources. And it requires political and social stability.

To support the adjustment process we request $160 million in ESF for the Caribbean in FY 1986. To deal with sectoral and human development problems, we propose $110 million in Development Assistance. We have requested $24.5 million in MAP funds, $4.0 million FMS credits, and $2.15 million in IMET to assist in the modernization and professionalization of Caribbean security forces.

D. Lessons Learned: Some Legislative Proposals

Let me now turn to several legislative proposals that will help us to better advance U.S. interests in Latin America and the Caribbean. These are based on the lessons we have learned in developing and applying assistance programs. Some are recent lessons. Others are rooted in dilemmas and confusions that have bedeviled foreign assistance virtually from its inception.

1. Administration of Justice. Last year we proposed to help strengthen judicial systems in Central America and the Caribbean by assisting the entire process, including the training and support of law enforcement agencies under carefully defined conditions. This is a significant, low-cost program which will strengthen democracy and the observance of basic human rights. We have a significant number of allies -- Latin and Caribbean lawyers, judges, bar associations, justice ministers, prosecutors and professors of law -- who are actively engaged in efforts to reform and strengthen a process central to the functioning of any civilized society, and who want our support. This year we have

expanded this proposal to cover all of Latin America and the Caribbean.

2. Economic Assistance Coordination. We are again requesting your cooperation in authorizing U.S. participation in an effective forum for dialogue on the problems of the Central American region. The Bipartisan Commission argued for a Central American Development Organization to facilitate the direct participation of Central Americans, from the private sector as well as from the government, in the formulation of strategies to achieve our common objectives. We believe that the operation of such a regional organization can guarantee that Congressionally sought purposes will be integrated into long-term regional development policies. Our experience with such concepts as the Caribbean Basin Initiative has taught us that when we listen to our neighbors, they do a better job of listening to us.

3. Multi-Year Authorization of Funding. The Bipartisan Commission on Central America concluded that uncertainty about future U.S. assistance undermines the implementation of current aid programs. We fully agree. This phenomenon is a reflection of a broader problem: Many Latin Americans have had the experience of seeing the U.S. periodically lose interest in their affairs. The ironic result is that our neighbors, especially in Central America, are often more concerned about U.S. withdrawal than about American involvement. It is true that the United States -- or any country -- focuses attention on "crises" of the moment and that shifts in concern from one area of the world to another are to be expected; it is an altogether human trait. The problem is that, for example, the Ministers of Planning dealing with today's crisis must act as if international attention will shift elsewhere tomorrow.

In Central America today, the result is to weaken not only the ability of the planners to plan, and the private sector to invest, but also to undercut the impetus for fundamental reform -- essential for the middle- and long-term efficacy of our assistance -- and an issue in which the Congress has always had a special interest. In a phrase: Year-by-year funding in a situation as complex as Central America diminishes the impact of our support in such key areas as human rights and economic reform.

The Bipartisan Commission concluded that Central America today presented an opportunity for the United States to initiate a mature and effective relationship with the majority of Central Americans who want progressive change, but who also need a reliable and steady U.S. commitment to help them make it happen.

4. Training. Over the years a number of prohibitions on U.S. assistance have applied to training. The targets of the prohibitions are usually specific governments, but the impact is on people -- usually on individuals who may influence the future,

often with a different government. There is no more worthwhile and long-lasting investment we can make than in people. And training develops professional skills while also deepening Latin American and Caribbean understanding of U.S. ideals.

The Administration is therefore proposing legislation to permit training from funds made available in this act to be treated the same as the Peace Corps, USIA, disaster relief, and narcotics programs -- that is, as being exempt from general prohibitions on assistance. The human rights provisions of the Foreign Assistance Act, as well as the general prohibition against police training, would continue to apply.

5. Safety Equipment. Another section of the proposed legislation would permit the sale or licensing for export of items which are necessary for the safe operation of previously-supplied U.S. defense equipment. Because of certain country-specific provisions in U.S. law, some countries have not been able to obtain items necessary for the safe operation of previously-supplied U.S. defense articles. We believe the United States should not be in the position of denying equipment needed to avoid jeopardizing lives, whether of military pilots or of civilians on the ground.

6. Land Reform. We are again requesting authorization to use U.S. assistance funds to accelerate compensation to former landowners in El Salvador affected by the agrarian reform. The land reform has proven effective in rallying peasant support and limiting guerrilla opportunities. Valuation of affected properties, many of which were middle-sized, appears to have been fair in most instances. But compensation has often been delayed. We must help this key reform move forward. Uncertainty, evictions, and other enemies of entrepreneurship, effective planning, and production are all aggravated by the absence of compensation.

7. El Salvador Conditionality. Finally, our proposed legislation does not provide for detailed reporting requirements with regard to El Salvador. Singling out particular countries for specific monitoring has limited usefulness, and can be quickly overtaken by psychological and other factors. This is especially true when a government like that of President Duarte is committed to the same objectives as we are -- and the conditions serve mainly to denigrate his efforts. We included a reporting provision in last year's proposal, before the Salvadoran elections took place. However, subsequent events have overtaken this approach. We demonstrated this past year, I believe, that cooperation between the U.S. and Salvadoran governments, and regular consultation with the Congress are effective in achieving our mutual human rights and other priority goals.

III. WILL NICARAGUA CHANGE?

In Nicaragua, 1984 was a year of missed opprtunities, a tightening Sandinista hold over the Nicaraguan government and the expansion of the Sandinista arsenal with new generations of Soviet arms.

1984 also confirmed another critical lesson: The Sandinistas can be made to change their ways, but only if pressure is applied to make them do so. Throughout 1983 and into 1984, a variety of pressures -- military exercises, naval maneuvers, internal opposition (both armed and unarmed), falling international prestige and a deteriorating economy -- did produce some change, at least rhetorically, in Sandinista policy. They finally agreed to hold elections -- although these turned out to be a sham -- after five years of excuses, and continued to take part in the Contadora negotiations. But then something happened.

By the end of 1984, the Sandinistas had returned to their old intransigence and were again acting as if they had no reason to compromise with their neighbors, with their own dissident political forces, or with the United States. Indeed, following their election, they cracked down with new vigor on the internal opposition and have resisted efforts to modify the flawed and incomplete September 1984 draft Contadora agreement that all other participants agree must be improved. It is reasonable to assume that the Sandinistas concluded both that their opponents' internal support would not be matched externally and that they themselves could propagandize their way to "legitimacy" through a sham election. If those judgments prove valid, it would imply a U.S. failure in terms of both the confidence of our friends and our own principles.

An event just this past weekend, however, indicates that an opportunity like the one missed in the November elections is still available -- if the government of Nicaragua has any interest in taking advantage of it. On March 23, the Nicaraguan Bishops' Conference accepted the March 2 call of the united Nicaraguan opposition for a Church-mediated dialogue with the Sandinistas.

The opposition manifesto, announced in San Jose, Costa Rica by opposition leaders Arturo Cruz, Adolfo Calero and Alfonso Robelo, included the following elements: Convocation of the dialogue by the Nicaraguan Bishops Conference; suggestion that other Central American governments act as guarantors of any agreements reached; acquiescence in presence as observers or guarantors of any other hemispheric governments; suspension of all armed activities and a cease-fire in place; and acceptance of Daniel Ortega "as head of the Executive Branch until such time as the people pronounce themselves in a plebiscite."

The response, at this writing, of the Sandinistas has been typically intransigent. On March 7, Arturo Cruz, who was attempting to present the offer to the Nicaraguan Government, was denied entry into Nicaragua. Two days later, the Interior Minister summoned ten leaders of the unarmed opposition to accuse them of conspiring with anti-Sandinista guerrillas.

Nonetheless -- as in any confrontational situation -- we need not take this rejection of dialogue as definitive. In the Nicaraguan situation, there are many reasons for the Sandinistas to recognize that it is in their interest to take up this offer -- and to do so honestly. The willingness of resistance forces to lay down their arms if allowed to participate in genuinely free and fair democratic elections has been on record, in writing, since December, 1983. The belief on the part of Nicaragua's Roman Catholic Bishops that this kind of dialogue is an urgent necessity has been manifest since their Easter pastoral letter of April 22, 1984, when they called for "all Nicaraguans inside and ouside the country...[including] Nicaraguans who have taken up arms against the government," to participate in "a sincere effort to seek appropriate solutions...in a climate of democratic harmony." Going back still further, the need for dialogue has been integral to the Contadora process ever since the September, 1983 Document of Objectives, which called for "national reconciliation efforts wherever deep divisions have taken place within society, with a view to fostering participation in democratic political processes ...". Most of the pieces are in place; the pressure is on Nicaragua to complete the picture.

It is important in this context to deal with the controversial, perceived U.S. relationship to the Nicaraguans who have taken up arms against those who cheated them of the goals of their revolution against Somoza. The fact that the Nicaraguan armed resistance has been able to sustain operations reflects substantial indigenous and hemispheric support. Moreover, often overlooked in the debate over the armed opposition and U.S. support is what Nicaragua would be like without pressure from the armed opposition, which, unless the Sandinistas change their behavior, is the only internal obstacle to consolidation of a dictatorial regime bent on providing military support to Marxist revolutions throughout Central America.

The U.S. government must also consider the consequences of failure to induce the Sandinista government to permit political pluralism. Contrary to their own pronouncements, the Sandinistas may be content to be left alone to build Marxism in one country. But the burden of proof should lie on those who proclaim that the Sandinistas are interested only in Nicaragua. Neither the Cuban precedent nor the Sandinistas' behavior to date fit that proposition. And if a long-term policy of containment were to become necessary, both the United States and its friends in Central America would pay the price.

Nicaragua's democratic resistance deserves the solidarity of the West. Shall we always wring our hands when a country suffers from Soviet or Marxist dictatorship but fail to help those who resist it?

The identity of the resistance fighters has been clouded by Sandinista propaganda denunciations of them as mercenaries and mostly former National Guardsmen who remain loyal to Somoza. In fact, all you have to do is count the numbers; there are far more resistance fighters than there ever were members of the National Guard, even at its peak in Somoza's last days. The armed opposition consists of peasants, farmers, shopkeepers, and vendors. Their leaders are men who opposed Somoza. What unites the armed resistance to the thousands of Nicaraguans who struggle politically without arms is disillusionment with Sandinista abuse, corruption, and fanaticism. The myth that if Somoza was bad the Sandinistas must be good was exploded long ago for most Nicaraguans.

Let us be clear: it is partly because our adversaries are intervening on behalf of totalitarianism in Central America that so many of our friends are involved in active opposition to dictatorship. The Nicaraguan resistance was labeled "contras" by the people who wanted to deny them legitimacy. But the historical fact is that they are more "for" than "against": they are for democracy, for national independence, and for the original promises of the anti-Somoza revolution. What they are against is betrayal of those ideals. The Nicaraguan democratic resistance clearly has a principled claim on our support.

Our concerns about Nicaragua and our other interests in Central America can best be served by the conclusion of a workable, comprehensive, and fully verifiable regional agreement based solidly on the 21 objectives the Contadora process has set for itself. Our diplomacy must support that outcome.

We must be realistic. Realism means standing firmly on principles and with our friends. And it also means understanding how to go about it in the real world -- where clear alternatives and easy choices are as rare as practicing democrats among the comandantes.

Last May, on behalf of the Contadora countries, Mexico suggested that we initiate direct talks with the Sandinistas. Secretary Shultz traveled to Managua last June to propose such talks, making clear publicly and privately to Daniel Ortega that our purpose was to support and facilitate the Contadora process. As a result of the Secretary's initiative, nine meetings were held between Special Envoy Shlaudeman and Nicaraguan Vice Minister Tinoco. These have been useful in permitting each side to present its concerns, but they have made no substantive progress. Following the last round, the Sandinistas were refusing to negotiate further in Contadora, while pressing for continued bilateral rounds with the United States. In order to avoid any impression that the Manzanillo talks could in any way replace or interfere with those critical multilateral negotiations, we decided to hold off on any further bilateral meetings with the Sandinistas pending the results of the next Contadora session.

Next month, April, a new and most important round of negotiations is to begin in the Contadora process. The importance of a Contadora settlement is evident in the alternative:

> The Sandinistas have global ties and plans for Nicaragua and Central America that are contrary to U.S. interests;
>
> They will not modify or bargain over their position unless there is some compelling incentive for them to do so;
>
> U.S. aid, even in the generous amounts provided in 1979 and 1980, proved not to be an incentive -- the Sandinistas took our money and stepped up their subversive activities;
>
> The only incentive that has proved effective thus far has been opposition from other Nicaraguans;
>
> If pressure is taken away, the Sandinistas will have no reason to compromise;
>
> If the Sandinistas have no reason to compromise, Contadora will surely fail; and
>
> If Contadora fails, the conflict will stretch on, and the long-run costs to the United States in every sense will be much greater.

The recent history of Central America, the current dynamic of events, and the very nature of negotiations add up to a mandate to continue our present bilateral and multilateral policies. The pressure is needed for the peacemaking to work. The alternatives are more dangerous.

IV. CONCLUSION

Mr. Chairman, I believe that our understanding of the problems and our proposals for their remedy are realistic. We have not claimed credit for all the progress in the past, and I am not predicting that we will run a three-minute mile if you provide everything we have requested. But the alternatives -- a harder line, a softer line, a "quick fix", or mere inaction -- simply do not coalesce into policies which serve our national interests.

The democratic transition in the hemisphere over the past half dozen years has shown that the Latins and Caribbeans can use the kinds of economic, military, social and political support I have outlined for FY 1986. At the same time, their own goals and preferences -- whether detailed in the Contadora objectives or the latest national economic restructuring program -- are more and more coincident with our own. It is in our own national interest to provide that support to them.

It is particularly important that we as a nation demonstrate to our neighbors a long-term interest in their security and well-being. And that we do it clearly, as for example in the assistance legislation before you.

Our concerns in these matters transcend party and ideological lines. But we in this city too often communicate indecision and uncertainty -- even to people who understand how democracies function. When that happens our friends begin to believe that we are capable of "abandoning" them. In Costa Rica today, for example, the media, the campaign rhetoric, and the public opinion polls offer an insight into how one very democratic, very human rights respecting country without an army views Nicaragua, Cuba, Contadora -- and the United States. Just as important is how any lack of U.S. clarity is perceived by those acting against our interests. The Sandinista Government of Nicaragua has repeatedly demonstrated its own operative assumption that mixed signals are the same as no signals at all. All of us here in Washington know the historical reasons, dating largely from the Vietnam era, why we have difficulty communicating our underlying consensus.

Now is the time, I believe, to reverse this weakness in the conduct of American foreign policy. We have a responsiblity to stick with the policies that have worked or begun to work. None of the alternatives would ultimately serve U.S. interests. Quick fixes, pulling back from the fray, or hoping for miracles are not responsible options. And direct military action would be a sign of failure. But if we stand together, firmly, predictably, and realistically defending our principles and our friends, then we can prevail.

PREPARED STATEMENT OF HON. NESTOR D. SANCHEZ

INTRODUCTION

THANK YOU, MR. CHAIRMAN.

SECRETARY MOTLEY HAS JUST PROVIDED THE COMMITTEE A DETAILED AND COMPREHENSIVE REVIEW OF THE PRESIDENT'S REQUEST FOR THE FY 1986 FOREIGN ASSISTANCE PROGRAM FOR LATIN AMERICA. WE IN THE DEPARTMENT OF DEFENSE FULLY SUPPORT THIS REQUEST AND BELIEVE IT REPRESENTS AN APPROPRIATE MIX OF ECONOMIC AND MILITARY ASSISTANCE FOR ACHIEVING OUR NATIONAL GOALS. I WILL CONCENTRATE MY REMARKS ON OUTLINING WHAT DOD BELIEVES ARE THE MAJOR STRATEGIC OBJECTIVES OF THE FY 1986 REQUEST FOR LATIN AMERICA.

THE ROLE OF SECURITY ASSISTANCE

THE ROLE OF SECURITY ASSISTANCE IN THE NATION-BUILDING PROCESS IS TO PROVIDE FRIENDLY COUNTRIES WITH THE CAPACITY TO COPE MORE EFFECTIVELY WITH EXTERNAL AND INTERNAL THREATS. ALTHOUGH SECURITY ASSISTANCE IS ONLY ONE FACET OF AID PROVIDED BY THE U.S., IT CAN BE A KEY COMPONENT FOR THOSE COUNTRIES WHOSE POLITICAL INTEGRITY IS THREATENED BY ECONOMIC INSTABILITY, SUBVERSION OR INVASION.

THE ULTIMATE OBJECTIVE OF ALL U.S. ASSISTANCE PROGRAMS IS TO CREATE FRIENDLY, SELF-RELIANT NATION-STATES THAT ARE ABLE TO PROSPER AND LIVE AT PEACE WITH THEIR NEIGHBORS WHILE REQUIRING MINIMAL SUPPORT FROM THE UNITED STATES. MILITARY ASSISTANCE HELPS TO FOSTER THE ENVIRONMENT WHICH ENABLES ECONOMIC ASSISTANCE AND DEMOCRATIC REFORM TO HAVE MAXIMUM POSITIVE IMPACT. CLEARLY, SECURITY ASSISTANCE IS INSTRUMENTAL IN SHAPING OUR FOREIGN POLICY AND IS MAKING A CONTRIBUTION TO OUR NATIONAL DEFENSE AT REMARKABLY LOW COST.

THE UNITED STATES CANNOT, BY ITSELF, PROVIDE THE MANPOWER AND THE MILITARY RESOURCES TO COVER ALL SECURITY-RELATED PROBLEMS AROUND THE WORLD. WE, THEREFORE, HAVE PURSUED REGIONAL STRATEGIES THAT COMBINE SECURITY AND ECONOMIC ASSISTANCE PROGRAMS WITH IMPROVEMENTS IN UNITED STATES DEFENSE CAPABILITIES AND SUPPORT FOR OUR ALLIANCE COMMITMENTS.

OUR PROGRAMS IN THE WESTERN HEMISPHERE ENABLE US TO HELP COUNTRIES, LIKE THOSE IN THE ANDEAN REGION OF SOUTH AMERICA, DEVELOP THEIR DEMOCRATIC SYSTEMS, DEFEND AGAINST INSURGENCIES AND SUPPRESS NARCOTICS CULTIVATION AND TRAFFICKING. WE ARE REQUESTING INCREASED ECONOMIC AND MILITARY ASSISTANCE TO THE FOUR COUNTRIES IN THE REGION, PARTICULARLY PERU, AND AS< FOR CONGRESSIONAL SUPPORT FOR THIS INITIATIVE.

ELSEWHERE, WE WILL SHORTLY BE WITHDRAWING THE UNITED STATES SUPPORT ELEMENT FROM GRENADA AND WILL BE LEAVING BEHIND A FREE AND VIABLE DEMOCRACY. WE WISH TO WORK CLOSELY WITH GRENADA AND THE OTHER EASTERN CARIBBEAN DEMOCRACIES TO BUILD UP THEIR OWN DEFENSE CAPABILITIES SO THAT THE FUTURE INVOLVEMENT OF U.S. MILITARY FORCES WILL NOT BE NECESSARY.

FINALLY, GEOGRAPHICALLY CLOSER TO HOME THAN MANY OF THE STATES IN OUR OWN REPUBLIC, IS CENTRAL AMERICA. IT REMAINS OUR PRIORITY STRATEGIC CONCERN WITHIN THE HEMISPHERE. HERE, OUR STRATEGY FOR ASSISTANCE IN THE REGION INTERACTS WITH THE STRATEGY OF CONUS DEFENSE, PROTECTING OUR SEA LANES FOR OUR OWN ECONOMIC WELL-BEING AND FOR THE DEFENSE OF EUROPE, AND THE IMPORTANT USE

OF THE STRATEGIC PANAMA CANAL. SOVIET SUPPORTED CUBAN AND NICARAGUAN ACTIONS ARE OUR CONCERN. OUR ASSISTANCE IN THE REGION NOT ONLY HELPS OUR FRIENDS TO DEVELOP BUT IT ALSO COUNTERS THE SOVIET, CUBAN AND NICARAGUAN DRIVE TO FOSTER INSTABILITY IN THESE COUNTRIES AND THREATEN OUR NATIONAL INTERESTS.

OUR ASSISTANCE PROGRAMS HAVE CONCENTRATED ON THE DEFENSE AND ECONOMIC NEEDS OF EL SALVADOR, HONDURAS AND THE OTHER CENTRAL AMERICAN STATES. AS STATED EARLIER A MAJOR PROBLEM FOR THE PROGRESS OF STABILITY IN THE REGION CONTINUES TO BE CUBAN AND NICARAGUAN SUBVERSIVE AND MILITARY ACTIVITIES WHICH HAVE AS THEIR PURPOSE, THE DESTABILIZATION OF THE REGION. PROGRESS ALSO WILL DEPEND ON THE ESAF ABILITY TO TURN THE TIDE OF CONFLICT IN EL SALVADOR. OUR FINANCING PROGRAMS - BOTH ECONOMIC AND MILITARY - HAVE BEEN INSTRUMENTAL IN CONTAINING THE INSURGENCY AND HALTING THE DETERIORATION OF THE ECONOMY IN EL SALVADOR, BUT CLEARLY THESE PROGRAMS MUST BE SUSTAINED IF REGIONAL PROGRESS CAN BE ACHIEVED.

SOVIET FOREIGN ASSISTANCE

OVER THE PAST TWO DECADES, THE SOVIET UNION HAS INCREASED ITS MILITARY ASSISTANCE AND ARMS SALES TIES TO SEVERAL THIRD WORLD COUNTRIES JUST AS IT HAS CONTINUED ITS MILITARY BUILDUP. UNLIKE OUR ASSISTANCE, WHICH HAS RETAINED A GLOBAL 3:2 RATIO IN FAVOR OF ECONOMIC ASSISTANCE FOR THE LAST SEVERAL YEARS, SOVIET AID IS HEAVILY WEIGHTED TOWARD THE MILITARY SIDE. WITH VERY FEW EXCEPTIONS - THE SOVIET UNION DOES NOT CONTRIBUTE MUCH TO ECONOMIC IMPROVEMENTS IN THE THIRD WORLD. THIS DECIDED EMPHASIS ON MILITARY AID - MORE THAN $90 BILLION WORTH OF ARMS DELIVERIES SINCE THE MID-1950's - REFLECTS SOVIET PRIORITIES INTERNAL TO THE SOVIET UNION ITSELF, PRIORITIES THAT RELEGATE HUMAN NEEDS TO MILITARY GROWTH AND EXPANSION AND REFLECTS THE SOVIETS' FAILURES IN INTERNAL ECONOMIC DEVELOPMENT.

THE SOVIETS PROVIDED THEIR MILITARY SALES AND ASSISTANCE TO A NUMBER OF TROUBLEMAKERS - LIBYA, VIETNAM, NORTH KOREA, CUBA, AND NICARAGUA -- OFTEN AT FAVORABLE PRICES AND WITH SHORT DELIVERY LEAD TIMES. THEY HAVE INTERVENED IN AFGHANISTAN

WHERE THEY PROP UP A PUPPET GOVERNMENT. OBVIOUSLY, THEY PREFER TO USE THEIR MILITARY PRODUCTION AND LOGISTICS SYSTEM TO CREATE AND EXPLOIT VULNERABILITIES AROUND THE WORLD. EITHER THROUGH DIRECT INTERVENTION OR THROUGH MAJOR RECIPIENTS OF SOVIET ASSISTANCE WHO USE SOVIET ARMS AND ADVISORS TO HEIGHTEN REGIONAL TENSIONS AND EXPLOIT INSTABILITIES IN THEIR REGIONS, WE FIND A STRONG CORRELATION BETWEEN SOVIET ARMS SALES AND MAJOR TROUBLE SPOTS AROUND THE WORLD.

THROUGH THEIR ASSISTANCE PROGRAMS, THE SOVIETS ARE ABLE TO STATION NEARLY TWENTY THOUSAND MILITARY ADVISORS ABROAD. YET THEY STILL PREFER TO DO MUCH OF THE REPAIR AND MAINTENANCE WORK THEMSELVES IN ORDER TO CREATE A DEPENDENCY RELATIONSHIP. THEY ALSO GIVE HEAVY DOSES OF PROPAGANDA IN THEIR TRAINING PROGRAMS.

OF GROWING CONERN IS THE EXPANSION OF THE SOVIETS AND THEIR SURROGATES IN THE AMERICAS AND THE CARIBBEAN. THEIR INVOVLEMENT IN THIS HEMISPHERE MUST BE COUNTERED. THEIR AID TO NICARAGUA AND CUBA IS NOT ONLY PERSISTENT BUT GROWING.

PROGRAM PLANNING

IN THE BROADEST SENSE, OUR SECURITY ASSISTANCE PLANNING SUPPORTS BASIC U.S. FOREIGN POLICY GOALS BY TAKING INTO ACCOUNT THE WELL-KNOWN INTERDEPENDENCE BETWEEN PHYSICAL AND ECONOMIC SECURITY. POLITICAL STABILITY IS AS THREATENED BY ECONOMIC INSTABILITY AS IT IS BY EXTERNALLY INSPIRED POLITICAL DESTABILIZATION. WHEN POLITICAL STABILITY IS THREATENED, DEMOCRATIC INSTITUTIONS AND VALUES ARE ALSO THREATENED. CONSEQUENTLY, SECURITY ASSISTANCE PLANNING PLACES AS MUCH EMPHASIS ON THE BALANCE BETWEEN ECONOMIC AND MILITARY ASSISTANCE AND THE IMPACT OF FUTURE DEBT BURDENS AS IT DOES ON THE EFFECT OF FORCE STRUTURE MODERNIZATION IN DETERRING THREATS.

IN THE COURSE OF PURSUING OUR OBJECTIVES IN OUR RELATIONSHIPS WITH COUNTRIES WITH WHOM WE HAVE SECURITY ASSISTANCE PROGRAMS, ESPECIALLY THOSE WHERE WE PROVIDE FINANCING, WE WORK DILIGENTLY WITH THE COUNTRY TO ENSURE THAT THEY BUY WHAT THEY NEED, THAT IT CAN BE EFFECTIVELY OPERATED AND MAINTAINED WITHIN THEIR

RESOURCES AND SKILLS, THAT IT CONTRIBUTES SIGNIFICANTLY TO THEIR DEFENSE, AND MAKES A CONTRIBUTION TO COALITION DEFENSE WHERE POSSIBLE. OUR EMBASSIES, SECURITY ASSISTANCE OFFICES, UNIFIED COMMAND STAFFS AND WASHINGTON AGENCIES ARE ALL DEEPLY ENGAGED IN THIS PROCESS. WE WORK WITH COUNTRIES TO ENSURE THAT THEY RECOGNIZE THE NEED FOR BALANCED PROGRAMS APPROPRIATE TO THE THREATS THEY FACE, PROGRAMS THAT INCLUDE THE TRAINING AND LOGISTICS SUPPORT THEY NEED TO MAKE AND KEEP THEIR FORCES EFFECTIVE. OUR EXPERIENCE HAS SHOWN THAT MOST COUNTRIES DO NOT MAKE EXORBITANT REQUESTS OR UNREASONABLE DEMANDS ON THE U.S. THEY ARE SENSITIVE TO THEIR AILITY TO ABSORB NEW EQUIPMENT. ALMOST ALL ARE AWARE OF THEIR FINANCIAL LIMITATIONS.

OUR PLANNING EFFORTS WITH EACH COUNTRY ARE PARTICULARLY CONCENTRATED IN CENTRAL AMERICA WHERE IT IS SO IMPORTANT THAT WE ASSIST THE COUNTRIES IN BOTH AN URGENT AND BALANCED PROGRAM TO HELP THEM DEFEND THEMSELVES AND DEVELOP DEMOCRATICALLY, SOCIALLY, AND ECONOMICALLY. NO WHERE ELSE ARE OUR EFFORTS SO DETERMINED AND CONCENTRATED.

THE FY 1986 REQUEST

ABOUT 5% OF OUR FY86 MILITARY ASSISTANCE REQUEST GOES TO LATIN AMERICA AND THE CARIBBEAN, AND ONLY ABOUT 4% TO THE STRATEGICALLY IMPORTANT CENTRAL AMERICAN REGION.

IN LATIN AMERICA OUR FOCUS IS PRIMARILY ON NATION-BUILDING. THE MILITARY/ECONOMIC BALANCE IS ABOUT 1:4 IN FAVOR OF ECONOMIC AID. THE BALANCE FOR THE CENTRAL AMERICAN COUNTRIES IS ABOUT THE SAME AS FOR THE EASTERN CARIBBEAN AND SOUTH AMERICAN RECIPIENTS.

THE CARIBBEAN

IN THE EASTERN CARIBBEAN, SECURITY FORCES HAVE SIGNIFICANTLY IMPROVED BECAUSE OF THE TRAINING AND EQUIPMENT PROVIDED THROUGH MILITARY ASSISTANCE FUNDS. SPECIFICALLY, AN 80-MAN SPECIAL SERVICES UNIT HAS BEEN CREATED WITHIN EACH OF THE SMALL ISLANDS' POLICE FORCES, EXCEPT FOR BARBADOS AND ANTIGUA, WHICH HAVE SMALL NATIONAL DEFENSE FORCES IN ADDITION TO POLICE. NEW COAST GUARD PATROL BOATS HAVE BEEN PROVIDED OR ARE PROGRAMMED FOR

GRENADA, ST. CHRISTOPHER, AND ST. VINCENT. THE $10 MILLION FY86 MAP PROGRAMS WILL PROVIDE LOGISTIC SUPPORT FOR PATROL BOATS AND FOR THE PURCHASE OF ONE PATROL BOAT FOR ST. VINCENT. ADDITIONAL PURCHASES WILL BE COMMUNICATIONS EQUIPMENT AND POSSIBLY TWO LIGHT TRANSPORT AIRCRAFT TO PROVIDE SUPPORT FOR THE REGIONAL SECURITY SYSTEM. THE $400,000 IMET FUNDING WILL BE USED FOR TECHNICAL AND PROFESSIONAL MILITARY SKILLS. FUTURE YEAR MAP PROGRAMS WILL HELP THE REGION TO BE CAPABLE OF DEFENDING ITSELF AGAINST THREATS TO THEIR DEMOCRATIC INSTITUTIONS.

OUR SECURITY ASSISTANCE FOR JAMAICA, HAITI, AND TRINIDAD AND TOBAGO HAS FOCUSED ON SUPPORTING THESE COUNTRIES IN THEIR EFFORTS TO COMBAT NARCOTICS TRAFFICKING AND SUBVERSION PRIMARILY THROUGH TRAINING AND PROVISION AND/OR SUPPORT OF PATROL BOATS.

FY86 PURCHASES BY THE DOMINICAN REPUBLIC WILL CONTRIBUTE TO THE CONTINUED MODERNIZATION OF THEIR FORCES WHILE ENHANCING THIS COUNTRY'S ABILITY TO MAINTAIN TERRITORIAL SURVEILLANCE AND DEFEND ITSELF.

LATIN AMERICAN SECURITY ASSISTANCE LEVELS

THE SPECIFIC PURPOSE AND REASON FOR THIS MODEST REQUEST, WHICH TOTALS ABOUT $326 MILLION IN MILITARY ASSISTANCE AND APPROXIMATELY $1.2 BILLION IN ECONOMIC ASSISTANCE FOR LATIN AMERICA, IS TO ALLOW THE POLITICAL, SOCIAL, AND ECONOMIC DEVELOPMENT OF THESE COUNTRIES IN ORDER FOR THEM TO PROGRESS AND REMAIN INDEPENDENT DEMOCRACIES OF THE AMERICAS.

IN REGARDS TO OUR CENTRAL AMERICAN REQUIREMENTS AND THE SECURITY ASSISTANCE INTERRELATIONSHIPS OF THAT VITAL AND CONTESTED AREA OF LATIN AMERICA, THE PRESIDENT'S REQUEST AGAIN PARALLELS CLOSELY WITH THE RECOMMENDATION OF THE JACKSON PLAN FOR CENTRAL AMERICA. THE PREVIOUS SUPPORT OF THE CONGRESS HAS BEEN POSITIVE.

WITHIN THE PAST YEAR, DEMOCRACY AND CONSTITUTIONAL GOVERNMENT HAVE GROWN. THE UPCOMING ELECTIONS IN EL SALVADOR, HONDURAS, AND GUATEMALA NEED THE SUPPORT OF THIS COMMITTEE AND THE CONGRESS. FUNDS FOR COSTA RICA AND HONDURAS ARE NEEDED TO

ALLOW THE CONTINUED MODERNIZATION AND INFRASTRUCTURE DEVELOPMENT OF THE SMALL MILITARY FORCES OF THESE COUNTRIES.

OUR REQUEST FOR HONDURAS, COSTA RICA, PANAMA, BELIZE, GUATEMALA, AND EL SALVADOR IS FOR DEFENSIVE PURPOSES. WE DO NOT SEEK TO PROVIDE ANY COUNTRY IN THE REGION WITH THE MEANS TO ATTACK A NEIGHBOR.

THERE CAN BE NO DOUBT OF THE CONTINUED GROWTH OF THE SANDINISTA MILITARY FORCES. NICARAGUA NOW HAS SOME 150 T 55 AND PT 76 TANKS, AND 200 OTHER ARMORED VEHICLES, WHICH CAN HARDLY BE SEEN AS DEFENSIVE WEAPONS BY THEIR NEIGHBORS. THE INFRASTRUCTURE REQUIRED FOR TANKS AND OTHER HEAVY TRACKED ARMORED FIGHTING VEHICLES IS EXTREMELY EXPENSIVE AND LABOR INTENSIVE - WHY DO THE SANDINISTAS POSSESS OVER 150 SOVIET TANKS?

GUATEMALA

IN GUATEMALA, WE HAVE REQUESTED $10 MILLION IN CONCESSIONAL FMS CREDITS. THIS REQUEST IS MADE TO ENCOURAGE CONTINUED GUATEMALAN PROGRESS TOWARDS CONDUCTING NATIONAL ELECTIONS AND DEMOCRATICALLY

ELECTING A CIVILIAN GOVERNMENT. OBLIGATION OF THESE FUNDS WOULD BE DEPENDENT UPON PROGRESS TOWARD DEMOCRATIZATION AND WILL LIKELY BE USED FOR NON-ARMAMENT SPARES AND EQUPMENT, AND FOR ITEMS OF A HUMANITARIAN NATURE - SUCH AS MEDICINE, CIVIC ACTION, MEDICAL EVACUATION HELICOPTERS, AND AMBULANCES.

HONDURAS

THE HONDURAN SECURITY ASSISTANCE PROGRAM WILL ALLOW THE CONTINUED MODERNIZATION OF THEIR ARMED FORCES. DURING FY86 THE HONDURANS PLAN TO PURCHASE ADDITIONAL TRUCKS, HELICOPTERS, SPARES, AND TRAINING.

PANAMA

PANAMA WILL CONTINUE THE UPGRADE OF THEIR DEFENSE FORCE. THE MAJORITY OF THE FY86 REQUEST WILL BE USED TO FUND THE CONTINUED TRAINING AND EQUIPPING OF THE FORCES THAT WILL DEFEND THE PANAMA CANAL.

COSTA RICA

COSTA RICA WILL USE THE 2.5 MILLION REQUESTED FOR EQUIPMENT SPARES AND TRAINING FOR THEIR SMALL PUBLIC SECURITY FORCES.

EL SALVADOR

YOUR SUPPORT FOR PRESIDENT DUARTE, REFLECTED IN THE FY84 AND FY85 FUNDING, PROVIDED THE FOUNDATION FOR THE ESTABLISHMENT OF AN ADEQUATE MILITARY FORCE STRUCTURE IN EL SALVADOR. THE APPROPRIATION OF CONSISTENT FUNDING LEVELS ENABLES THE GOES AND USG TO PLAN FOR THE ACQUISITION AND MAINTENANCE OF EQUIPMENT AND WEAPONS SYSTEMS. THIS IS THE FOUNDATION FOR THEIR PROGRAM - FY86 FUNDING WILL BUILD ON THIS FOUNDATION.

LARGELY DUE TO YOUR SUPPORT THE ARMED FORCES OF EL SALVADOR NOW HAVE THE MEANS TO RAPIDLY MOVE TROOPS TO REINFORCE THREATENED AREAS. THEY HAVE AN ADEQUATE, BUT RUDIMENTARY MEDICAL EVACUATION AND TREATMENT SYSTEM. THEIR TROOPS ARE BETTER EQUIPPED AND, MORE IMPORTANTLY, ARE BETTER LED THAN IN PAST YEARS.

AS YOU ARE AWARE, IN DECEMBER 84 WE DELIVERED THE C-47 AIRBORNE FIRE SUPPORT PLATFORM (AFSP) TO THE SALVADORAN AIR FORCE. OUR AMBASSADOR AND PRESIDENT DUARTE HAVE EXAMINED ALL

ASPECTS OF THIS WEAPONS SYSTEM. DOD AND THE GOVERNMENT OF EL SALVADOR CAREFULLY ESTABLISHED A TRAINING PROGAM, RULES OF ENGAGEMENT, AND A TACTICAL CONTROL PLAN TO AVOID FRIENDLY MILITARY AND NON-COMBATANT CASUALTIES.

THE TEST PERIOD FOR THE C-47 AFSP WAS COMPLETED ON 20 FEBRUARY AND PRESIDENT DUARTE INFORMED OUR AMBASSADOR THAT HE WAS SATISFIED THAT THE SALVADORAN ARMED FORCES HAVE MET THE REQUIREMENTS CONCERNING THE EMPLOYMENT OF THIS AIRCRAFT. A RECOMMENDATION FOR THE EMPLOYMENT OF THE SECOND C-47 AFSP HAS BEEN APPROVED. THE INSURGENTS HAVE INDICATED THEIR REACTION TO ALL FORMS OF AIR POWER BY ATTEMPTING WHENEVER POSSIBLE TO ATTRIBUTE NON-COMBATANT CASUALTIES TO A-37 JETS, HELICOPTERS, AND THE AFSP. WE BELIEVE THAT THE GOES IS SENSITIVE AND CONSCIOUS OF THEIR RESPONSIBILITY TO ENSURE THESE WEAPONS SYSTEMS ARE USED ONLY AGAINST MILITARY TARGETS.

THE SALIENT FEATURE OF OUR FY 1986 REQUEST IS PROGRESS. THE GOVERNMENT OF EL SALVADOR IS MAKING PROGRESS - PROGRESS NOT

ONLY TURNING THE TIDE OF CONFLICT BUT ALSO PROGRESS IN THE POLITICAL, SOCIAL, AND ECONOMIC AREAS.

ONE YEAR AGO THE SECURITY SITUATION IN EL SALVADOR WAS, AT BEST, UNCERTAIN. SINCE THEN, THE SALVADORAN ARMED FORCES HAVE BEGUN ACTIVE IMPLEMENTATION OF PRESIDENT DUARTE'S NATIONAL PLAN AND HAVE TAKEN THE INITIATIVE AGAINST THE INSURGENTS. THE RESULTS HAVE BEEN ENCOURAGING THUS FAR, IN GOOD PART BECAUSE WE HAVE BEEN ABLE TO DEMONSTRATE COMMITMENT THROUGH FUNDING NECESSARY TO TRAIN, EQUIP AND HELP MOTIVATE THE ARMED FORCES. ALTHOUGH IT REQUIRED TWO SUPPLEMENTAL APPROPRIATIONS IN FY1984, THE LEVELS APPROVED FOR BOTH FY 1984 AND FY 1985 CONTRIBUTED GREATLY TOWARD MEETING THE NEED FOR THE GREATER CONTINUITY AND PREDICTABILITY CALLED FOR IN THE NATIONAL BIPARTISAN COMMISSION REPORT ON CENTRAL AMERICA. THE POLITICAL SITUATION HAS STABILIZED THROUGH THE ELECTORAL PROCESS, INCLUDING THE ELECTION OF PRESIDENT DUARTE LAST SPRING. IN ADDITION, THE LONG-TERM ECONOMIC DETERIORATION HAS BEEN SLOWED, WHILE THE INCIDENTS OF CIVIL VIOLENCE HAVE BEEN GREATLY REDUCED.

THIS CORRELATION BETWEEN THE IMPROVED SECURITY SITUATION AND THE ECONOMY IS NO ACCIDENT. THE SYNERGISM BETWEEN ECONOMIC AND SECURITY ASSISTANCE IS CLEARLY EVIDENT IN EL SALVADOR, AND WE ARE, ONCE AGAIN, PROPOSING ECONOMIC AID LEVELS AT ABOUT THREE TIMES THE MILITARY REQUEST. HOWEVER, IT IS CLEAR THAT CONTINUED MILITARY ASSISTANTCE AT THE PROPOSED $132.6 MILLION FOR FY1986 IS NECESSARY TO SUSTAIN CURRENT OPERATIONS AND TO PRESERVE AND EXPAND THE SECURITY SHIELD FOR ECONOMIC GROWTH AND DEMOCRATIC PRACTICES TO TAKE HOLD. THE HIGH PRIORITY MILITARY PROCUREMENT AREAS WILL CONTINUE TO BE TRAINING, SUSTAINMENT (AMMUNITION, SUPPLIES, ARMAMENTS), COMMUNICATIONS, INFRASTRUCTURE, NIGHT SIGHT DEVICES, FIRE SUPPORT AND TACTICAL MOBILITY. I URGE YOU TO APPROPRIATE THESE FUNDS TO TAKE ADVANTAGE OF PROGRESS THAT HAS BEEN MADE AND TO DISCOURAGE THE INSURGENTS FROM STEPPING UP THEIR TERRORIST ACTIVITIES AGAINST CIVILIANS, THE ECONOMY AND THE POLITICAL STRUCTURE.

DURING FY1986 WE PLAN IN CONJUNCTION WITH THE GOVERNMENT OF EL SALVADOR TO CONTINUE THE LEADERSHIP, TACTICAL, AND UNIT TRAINING THAT HAS ENABLED THEIR ARMED FORCES TO BECOME AN EFFECTIVE FORCE AGAINST THE GUERRILLAS. AS PART OF OUR SUPPORT OF THEIR NATIONAL CAMPAIGN PLAN WE ARE TRAINING SALVADORAN CIVILIANS TO PROTECT THEMSELVES THROUGH A LOCAL SECURITY FORCE CALLED THE CIVIL DEFENSE. OUR EFFORTS HAVE CONCENTRATED ON A PILOT PROGRAM WITH U.S. ARMY INSTURCTORS TRAINING THE SALVADORAN TRAINERS-WHO THEN ESTABLISH THE TRAINING PROGRAMS FOR FARMERS AND TRADESMEN TO DEFEND THEMSELVES.

EL SALVADOR REQUIREMENTS

THE GOES HAS NOT IDENTIFIED ANY NEW MISSION AREA REQUIREMENTS. DURING FY1986 THEY PLAN TO INCREASE THEIR MAINTENANCE AND SUSTAINMENT CAPABILITY. THERE WILL BE MODEST FORCE STRUCTURE AND EQUIPMENT INCREASES. WE PLAN TO RESPOND TO THEIR REQUEST FOR APPROXIMATELY 8-12 HELICOPTERS, A FEW LIGHT HOWITZERS, ADDITIONAL TRUCKS, AMBULANCES AND SMALL PATROL BOATS.

WE PLAN TO SUPPORT EL SALVADOR'S EFFORTS TO IMPROVE TACTICAL AND TECHNICAL PROFICIENCY IN THE AREAS OF PSYCHOLOGICAL OPERATIONS, CIVIC ACTION, AND SELF SUFFICIENCY.

THE PROGRESS MADE IN EL SALVADOR THUS FAR HAS BEEN ACHIEVED AS A RESULT OF THE EFFORTS OF PRESIDENT DUARTE'S GOVERNMENT WITH THE SUPPORT OF THE ADMINISTRATION AND THE CONGRESS. TOGETHER, WE CAN CONTINUE TO MAKE PROGRESS.

SOUTH AMERICA

TURNING TO SOUTH AMERICA AND TO HIGHLIGHT THE TESTIMONY OF ASSISTANT SECRETARY MOTLEY. THE REQUEST FOR $4.5 MILLION IN MAP FUNDS FOR BOLIVIA IS A CONTINUATION OF THE $3 MILLION IN MAP APPROPRIATED IN FY1985. IN FY1986 THESE FUNDS WILL BE USED TO FINANCE SPARE PARTS AND EQUIPMENT TO HELP THEIR ARMED FORCES IN SUPPORT OF NON-SOPHISTICATED ITEMS SUCH AS TRUCKS, WHICH ARE READILY ABSORBED INTO THEIR ARMED FORCES. OUR EFFORTS IN BOLIVIA SUPPORT A DEMOCRATICALLY ELECTED CIVILIAN CHIEF EXECUTIVE A VIABLE ECONOMY, AND EFFORTS TO COMBAT THE DRUG PROBLEM.

PERU

OUR REQUEST FOR PERU IS TO ASSIST THEIR GOVERNMENT'S EFFORTS TO DEAL WITH LOCAL TERRORISTS AND DRUG TRAFFICKERS. IT IS A LIMITED INCREASE IN MILITARY ASSISTANCE TO OFFSET, IN A SMALL MEASURE, THE PREVIOUS LARGE SOVIET EQUIPMENT MILITARY TRANSFERS. $10 MILLION OF FMS FUNDS AND $18.35 MILLION OF MAP FUNDS WILL ALLOW THE UNITED STATES TO INITIATE A MODEST SECURITY ASSISTANCE PROGRAM WITH THE GOVERNMENT OF PERU.

COLOMBIA

COLOMBIA PLANS TO PURCHASE ADDITIONAL HELICOPTERS, INFANTRY WEAPONS AND TRAINING. AS YOU ARE AWARE COLOMBIA FACES AN INSURGENT THREAT WHILE AT THE SAME TIME MOUNTING A MAJOR DRIVE AGAINST THE DRUG TRAFFIC.

ECUADOR

THE GOVERNMENT OF ECUADOR WOULD OBLIGATE THE $5 MILLION FMS CREDITS AND $800 THOUSAND IMET REQUEST FOR TRAINING, SPARES, LIGHT INFANTRY WEAPONS, MEDICAL EQUIPMENT AND COMMUNICATIONS RELATED ITEMS.

PROPOSED LEGISLATION

WE REQUEST YOUR SUPPORT OF THE PROPOSED LEGISLATION THAT WOULD PERMIT THE SALE OR LICENSING FOR EXPORT OF ITEMS THAT ARE NECESSARY FOR THE SAFE OPERATION OF PREVIOUSLY SUPPLIED DEFENSE EQUIPMENT. BECAUSE OF COUNTRY SPECIFIC LAWS SOME COUNTRIES HAVE BEEN UNABLE TO CONTINUE SAFE OPERATION OF U.S. SUPPLIED AIRCRAFT. CURRENTLY CHILE POSSESSES U.S. SUPPLIED F-5 AND A-37 AIRCRAFT, EJECTION SEAT CARTRIDGES FOR THESE AIRCRAFT ARE ONLY AVAILABLE IN THE U.S. THE UNITED STATES SHOULD NOT BE IN THE POSITION OF PLACING THE LIVES OF FOREIGN PILOTS IN JEOPARDY BECAUSE OF A LACK OF FLIGHT SAFETY ITEMS.

OVER THE YEARS A NUMBER OF PROHIBITIONS ON U.S. ASSISTANCE HAVE APPLIED TO TRAINING. WHILE THESE PROHIBITIONS WERE AIMED AT SPECIFIC GOVERNMENTS, OFTEN THE INDIVIDUAL WHO WAS PREVENTED FROM TRAINING IN THE UNITED STATES WAS AN OFFICER WHO MAY BE INFLUENTIAL IN THE FUTURE, IN A VERY DIFFERENT GOVERNMENT. OUR TRAINING IN ADDITION TO DEVELOPING PROFESSIONAL SKILLS PROVIDES

TO THE STUDENT AN UNERSTANDING OF OUR VALUES, IDEALS AND INSTITUTIONS. BY OPENING AND MAINTAINING THESE CHANNELS OF COMMUNICATION, WE SERVE OUR NATIONAL INTEREST THROUGHOUT LATIN AMERICA.

SUMMARY

WE AT THE DEFENSE DEPARTMENT BELIEVE THAT CLOSE FOREIGN MILITARY RELATIONSHIPS ARE IMPORTANT ELEMENTS IN OUR INTERNATIONAL AFFAIRS AND NATIONAL INTERESTS. CONSISTENT SECURITY ASSISTANCE FUNDING LEVELS IS OF PARAMOUNT IMPORTANCE IF WE ARE TO SUCCEED WITH OUR MILITARY ASSISTANCE PROGRAMS.

FINALLY, AS THIS COMMITTEE DELIBERATES ON ITS RECOMMENDATIONS TO THE CONGRESS, IT SHOULD RECOGNIZE THAT MILITARY ASSISTANCE IS NOT A "GIVE AWAY" PROGRAM. THE FUNDS APPROPRIATED BY CONGRESS ARE SPENT IN THE U.S. AND ARE CONTROLLED BY DOD. MORE IMPORTANTLY, THESE FUNDS CONTRIBUTE TO BUILDING STRONGER DEMOCRATIC INSTITUTIONS AND ECONOMIC VIABILITY SOUTH OF OUR BORDER WHILE ASSISTING IN THE ACHIEVEMENT OF OUR NATIONAL GOALS. I KNOW I REFLECT THE VIEW OF THE SECRETARY OF DEFENSE WHEN I URGE THE COMMITTEE TO GIVE FAVORABLE CONSIDERATION TO THE ADMINISTRATION'S SECURITY ASSISTANCE PROPOSALS FOR LATIN AMERICA FOR FY86.

THIS CONCLUDES MY STATMENT. I WOULD BE PLEASED TO RESPOND TO ANY QUESTIONS YOU MAY HAVE. THANK YOU.

PREPARED STATEMENT OF
VICTOR M. RIVERA
ASSISTANT ADMINISTRATOR
BUREAU FOR LATIN AMERICA AND THE CARIBBEAN
BEFORE THE
COMMITTEE ON FOREIGN RELATIONS
U.S. SENATE
WASHINGTON, D.C.

ON

MARCH 26, 1985

Mr. Chairman, I am pleased to be here today to testify on our proposed program for the Latin American and Caribbean countries in FY 1986.

INTRODUCTION

The first half of the decade of the 1980s has been a period of economic decline and political crisis in the Latin American and Caribbean (LAC) region. Per capita gross domestic product (GDP) in the region fell for three consecutive years -- 1981 through 1983 -- and rose by a scant 0.2% in 1984. Last year's figure was 9% below the 1980 peak. The combined external debt of the LAC countries stood at $371 billion at the end of 1984, and the burden of debt servicing will act as a powerful damper on economic growth possibilities for the rest of the 1980s. Economic recovery has also been hindered by an international economic environment that turned unfavorable with the oil price shock of 1979-80 and began to show significant recovery only in 1984. The prolonged economic crisis, which has significantly lowered living standards and raised unemployment rates, has contributed to greater social unrest and threatens the stability of the growing number of democratically elected governments in the region. Our interests require that we do all we can during the second half of the 1980s to help the LAC countries regain the economic and social achievements they had attained by 1980 after two decades of strong progress.

The threats to U.S. interests have been especially great in Central America. The region is suffering not only from armed conflicts and political unrest, but also from sharply lower real incomes, high rates of unemployment, heavy per capita debt burdens, unacceptable levels of infant mortality and illiteracy in some countries, and a lack of confidence on the part of potential private investors, both domestic and foreign. Nevertheless, U.S. assistance is having a positive impact. In 1984, for the first time in six years, none of the six Central American countries receiving U.S. assistance had negative economic growth. Per capita GDP even increased in Costa Rica, and El Salvador had its first positive GDP growth since 1978. Without U.S. assistance, these gains would not have been possible.

Sustained economic recovery, improvements in equity, and the protection of U.S. interests throughout the LAC region will require a high level of U.S. assistance for a number of years. The Congress already has recognized this with the passage of the Caribbean Basin Recovery Act in 1983, the appropriation of significantly higher levels of resources through the FY 1984 Supplemental and FY 1985 Continuing Resolution appropriations in response to the recommendations of the National Bipartisan Commission on Central America

(NBCCA), and the authorization to use deobligations from around the world to meet the problems of the Andean countries. The level of support for the region reached $1,149.8 million in FY 1984 and is planned at $1,751.4 million in FY 1985. The problems of the LAC countries are so deep-seated that even with relatively favorable developments in the world economy, greater reliance on the private sector rather than on central planning, and a return to domestic political/security tranquility, at least this level of official development assistance from the United States and significant amounts from other donors will be necessary throughout the 1980s to achieve a rate of economic growth sufficient to result in a broad-based recovery of living standards.

External assistance alone, however, cannot bring about a sustained, equitable economic recovery and protect our fundamental interests in the region. It is imperative that the LAC countries themselves play a major role in the accomplishment of these objectives by undertaking appropriate economic policy reforms to stimulate private investment, creating more favorable environments for democratic institutions, and assisting lower-income groups in coping with the temporary adverse effects of necessary economic adjustment measures. Steps in these directions have been taken, but much more remains to be done.

U.S. INTERESTS

The United States has major economic and security interests in Latin America and the Caribbean. By 1981 the region had become our second largest export market, purchasing $42.2 billion of U.S. exports. However, the economic crisis drastically lowered the region's foreign exchange availabilities, and LAC purchases from U.S. exporters fell to $25.8 billion in 1983, thus eliminating some 400,000 jobs in our economy. Although our exports to the LAC countries in the first ten months of 1984 rose at an annual rate of 14%, they are still well below their 1981 peak in real terms. U.S. investment in the LAC region amounts to 58% of all U.S. direct investment in developing countries. Its profitability has declined, and the financial position of many U.S. banks has been threatened by the inability of LAC countries to keep current on debt servicing. The economic crisis in the LAC region also has increased illegal migration to the United States.

Our major security interests in the LAC region include access to Mexican and Venezuelan petroleum, to other industrial raw materials, and to the unimpeded use of the sea lanes adjacent to North America and the Panama Canal. The region is also important to our efforts to limit the spread of nuclear weapons, the operations of international terrorist groups, the production and trade of narcotics, and the seizure of power by hostile forces. It has been a focus of our concern for improving respect for human rights and the strengthening of democratic institutions. The creation of eight newly independent nations in the Caribbean Basin since 1974 has heightened that concern, and has made it more important that the countries of the region share our views on issues arising in hemispheric organizations and international fora. Our security interests have required the U.S. Government to make strong responses to critical situations in Central America and Grenada in the last few years. They have also led us to encourage and support a strong trend toward the adoption of civilian democratic governments in the region. However, the difficulties that the LAC countries face in overcoming the current economic crisis pose serious threats to our security interests. Our response must be sustained for at least the rest of the decade. As the Bipartisan Commission has made clear, the threats to our security interests are especially strong in Central America. We are implementing the Commission's recommendations with vigor and determination.

MAJOR DEVELOPMENT PROBLEMS

Recovery from the present crisis will be difficult, and in many countries it is likely to be slow. A resumption of rapid economic growth will depend both on major economic policy reforms in the LAC countries themselves and on a strong world economy that resists protectionist pressures. Even with such favorable developments, progress in reducing the incidence of poverty will not be easy. The principal socioeconomic problems confronting the LAC countries are described briefly below.

Financial Disequilibrium. Expansionist government policies in the 1970s, combined with unfavorable external economic events in the 1980s, produced large fiscal and balance-of-payments deficits in many LAC countries. The recession in the industrial economies in 1980-1982 drove down sharply the prices of the region's primary export commodities and lowered the demand for its actual and potential industrial exports. The second oil price shock of 1979-1980 sharply increased foreign exchange outlays for the oil-importing countries, while the oil-exporting countries have suffered in the last two years as oil prices have turned downward. Higher debt-servicing requirements had to be met by drawing down foreign exchange reserves, and a number of countries adopted or expanded import controls. High rates of inflation, overvalued exchange rates, interest rate ceilings, and political uncertainties led residents of many LAC countries to send money abroad, further aggravating balance-of-payments problems. Banks and other private lenders significantly reduced their loans and credits to the region because of their concern with its economic and political problems as well as their own relative portfolio exposure in LAC countries.

As the depth of the economic crisis became evident, countries in the region began to recognize that economic stabilization measures were necessary to restore internal and external equilibrium and lay a foundation on which sustained economic growth could occur. In late 1984, 12 LAC countries were operating under stabilization programs supported by the International Monetary Fund (IMF), and in early 1985 several other countries reached tentative agreements for IMF assistance.

A.I.D. has supported stabilization programs in a number of countries in the region in the 1980s by increasing significantly the flow of ESF resources in response to the need of the LAC countries for substantially greater balance-of-payments assistance. The success of Mexico's stabilization efforts has received much attention. Less well known are the achievements under Costa Rica's 1983 program: a reduction in the fiscal deficit from more than 14% of the GDP in 1981 to 4.5% in 1983, a lowering of the inflation rate from 82% to 11%; a rescheduling of debts to public and private external creditors;

relative exchange-rate stability; and conversion of a short-term capital outflow into a short-term inflow. Costa Rica had a positive rate of growth of per capita GDP in 1984. Jamaica has also implemented significant stabilization measures; Ecuador has made good progress; and most recently the Dominican Republic has adopted a major stabilization program. Most other countries, however, are finding it more difficult to meet the objectives of their stabilization programs. In part this is due to factors beyond their control, but often countries have been reluctant to undertake the politically difficult measures needed for stabilization and reform. Without such measures, financial disequilibria are likely to become more acute, and economic recovery will be delayed.

Unemployment and Underemployment. Four consecutive years of falling or stagnant per capita GDP in the region have taken a significant toll in the form of higher rates of unemployment and underemployment. Double-digit open unemployment rates are commonplace. In El Salvador the figure is estimated to be 30% or more. With labor forces growing by about 3% a year in the Central American and Andean countries, it takes a significantly positive rate of economic growth -- probably close to 5% a year -- just to provide full-time productive employment to new labor force entrants. Reducing unemployment and underemployment rates requires even faster growth.

External Debt Burdens. In an effort to maintain economic growth after the first oil price shock of 1973-1974, many oil-importing LAC countries borrowed heavily abroad in commercial markets. Oil-exporting countries also borrowed heavily to accelerate their rates of economic and social development. These borrowings continued in the 1980s in response to the second oil price shock of 1979-1980 and the decline in export earnings that occurred during the world recession of 1980-1982. However, the LAC countries did not foresee the depth and duration of the world recession or the steep rise in world interest rates that would add to their debt service burdens. For the LAC region as a whole, the public external debt was an estimated $268 billion at the end of 1984, and the private debt was another $103 billion. In the last few years there have been many debt reschedulings with public and private creditors, who have required that IMF-supported stabilization programs be adopted. Additional reschedulings will be necessary during the remainder of the 1980s.

Poor Prospects for Major Exports. During 1981-1983 coffee, bananas, and sugar accounted for 50% of Central America's commodity export earnings. Coffee is also a major foreign exchange earner in Haiti, as is sugar in the Dominican Republic, St. Kitts-Nevis, and Barbados, and bananas in Ecuador, Honduras, and the Windward Islands. Price prospects for all three of these commodities are poor for the rest of the decade, thus constituting a major impediment to economic recovery in countries that depend heavily on them. Similarly, the outlook is not good for bauxite, the principal export of Jamaica, Guyana, and Suriname. In the short run, a discouraging sign for commodity prices generally has been a drop of 12% between March and December 1984 in the IMF's index of commodity prices, ending a 16-month rise during which commodity prices partially regained ground lost during their steep decline at the beginning of the decade.

Structural Barriers to Export Diversification. The poor prospects for a number of traditional exports, combined with continued high debt-servicing requirements, makes rapid and sustained economic recovery in the LAC region more dependent on the development or expansion of nontraditional exports and particularly on agro-industrial products and other manufactures. During the 1960s and 1970s most LAC countries chose not to follow an export-oriented pattern of development but rather to pursue an import-substitution strategy, either individually or within the context of regional arrangements such as the Central American Common Market (CACM), the Caribbean Community and Caribbean Common Market (CARICOM), and the Andean Group. Even when this strategy was successful (as in Central America during the 1960s), the gains were relatively modest. By the 1970s new import-substitution opportunities were limited by the small size of the domestic or regional markets. This was particularly true in the Caribbean. Many existing import-substitution industries remained relatively inefficient but continued to operate profitably because they were protected by a high tariff wall. They were unable, however, to produce competitively for export markets. This remains a serious problem today.

Other barriers to exporting to markets outside the LAC region include tax incentive structures that favor import substitution, lack of access to foreign exchange for exporters who need imported materials, insufficient access to credit, onerous paperwork requirements, and investment climates that discourage foreign entrepreneurs. In some countries, an overvalued exchange rate is the greatest single obstacle to export expansion and diversification.

Inadequate Spread of the Benefits of Growth. Progress in broade availability of education, health services, and housing was substantial i 1960s and 1970s. The economic crisis of the 1980s, however, has halted much of this progress, leaving large segments of the LAC countries' populations still untouched. Health, nutrition, and educational services have almost certainly deteriorated in LAC countries that have been hit hard by the current economic crisis. Given fiscal constraints, the resumption of progress in these areas will require major improvements in the efficiency of service delivery. Substantial technical assistance and training will be necessary to achieve this. In addition, there will have to be a larger role for the private sector in providing these services.

Infrastructure Problems. Recent natural and man-made disasters have caused serious infrastructure losses in a number of LAC countries. Rural areas in Bolivia, Ecuador, and Peru were ravaged by floods which destroyed or damaged bridges, roads, irrigation systems, and other structures. Hurricanes struck a number of Caribbean countries, causing the greatest relative damage in Dominica. In El Salvador, guerrillas have destroyed bridges, blown up power lines, and damaged other infrastructure in their efforts to overthrow the democratically elected government.

These obvious losses, however, account for only part of the problem. Because of foreign exchange shortages, infrastructure that has deteriorated from normal wear and tear has not been repaired or replaced. Furthermore, capital budgets have been slashed sharply in many countries as part of the effort to reduce fiscal deficits. Because of all these losses, large investments in infrastructure -- with a considerable foreign-exchange will be necessary to sustain the process of economic recovery. The multilateral banks will help finance these costs, but the magnitude of the problem -- which has grown as the recession has lengthened -- will require our assistance as well. Much of this assistance will be provided from local currency counterpart generated by ESF and P.L. 480 programs. In some cases -- e.g., El Salvador and the Eastern Caribbean -- infrastructure construction and reconstruction will be directly supported by DA and ESF project funding.

Rapid Population Growth. Although the LAC population growth rate has been reduced from 2.8% in the 1960s to about 2.3% at present, the average growth rate is higher in the poorer countries which are being assisted by A.I.D. Moreover, labor forces are growing faster than population. Rapid population growth, combined with policies that have failed to achieve self-sustaining economic growth, has made it especially difficult for countries to meet objectives in health, education, nutrition, and other dimensions of welfare during a period of economic decline. In addition, greater population pressures without proper techniques for management of limited natural resources have contributed to soil erosion and other environmental degradation. Rapid labor force growth has aggravated problems of unemployment and underemployment.

Weakness of Democratic Institutions. Unrepresentative political systems, lack of respect for human rights, indigenous and foreign-sponsored violence by anti-democratic elements, and ill-defined legal norms inhibit economic growth and development by restricting economic opportunities for disadvantaged groups and by creating uncertainties for potential investors, both domestic and foreign. Progress in these areas has been made, but continued efforts are needed to consolidate and expand the gains achieved to date. Costa Rica and the English-speaking Caribbean have well-established democratic traditions, but other LAC countries have less experience with free elections, other forms of democratic participation, and clear and equitable legal processes. Representative political systems, respect for human rights, and equitable legal systems cannot be established overnight, nor can they be imposed from outside. But outside assistance can be effective in supporting indigenous efforts in these areas. We have been encouraged by recent progress toward the institutionalization of democratic institutions in Central America and the Andean countries, the return of participatory democracy in Grenada, and the consolidation of democracy in the Dominican Republic. Continued support for these efforts will improve their chances for long-run success.

STRATEGY AND GOALS

A.I.D.'s strategy for addressing the problems outlined above is to promote economic growth and poverty alleviation through support for four broad approaches: (1) economic stabilization efforts in the near term, (2) basic structural reforms to permit a sustained economic recovery and substantial job creation along more efficient lines, (3) efforts to promote greater equity in the principal sectors in which A.I.D. is supporting programs, and (4) programs to strengthen democratic institutions and human rights.

These approaches place relatively more emphasis on policy reforms and management improvements than did our programs in the 1970s because the problems of the 1980s require a major economic reorientation if growth and equity objectives are to be achieved. They also require more program assistance than project assistance in the short run. In addition, they involve more direct assistance to the private sector, both because the public sector's ability to absorb project assistance is limited by fiscal constraints, and because many private sector investments will be more productive in the short and medium terms. Still, the overall program remains targeted on the needs of less advantaged populations, emphasizing productive employment opportunities as well as access to health care, education, and other social services. It is a growth-with-equity strategy designed to bring about broad-based national development and to strengthen support for democratic institutions.

Given the increasing magnitude of the assistance to the region over the last several years, A.I.D. has carefully considered its capacity to manage, and the region's capacity to absorb, the increased level of resources. We have taken care to assure that the program does not exceed absorptive capacity. A comparison of levels of undisbured balances under A.I.D. programs indicates that the "pipeline" of undisbursed funds has actually fallen significantly in relation to annual disbursements. This improvement in part reflects an increase in the importance of more rapid-disbursing assistance to the private sector.

1. Stabilization. A.I.D. continues to encourage LAC governments to correct their macroeconomic disequilibria through stabilization programs. Most have adopted such programs, and we are encouraged by the success with which many of them have been implemented. Under these programs A.I.D. has

cooperated with the IMF to provide foreign exchange to help cushion declines in economic activity while countries are laying the groundwork for economic recovery. These programs also make it possible for countries to reschedule their external debts, thus further relieving their balance-of-payments constraints. A.I.D.'s support for stabilization efforts has been made available through ESF assistance, which provides both an incentive for countries to take action (through appropriate conditionality) and a means to do so without incurring unsustainable social and political stress. Our goal is to have the LAC countries by late 1986 managing their external sectors on a current basis by eliminating arrearages and the need for further debt reschedulings and by restoring government fiscal equilibrium. Meanwhile, the need for stabilization assistance continues to be great. Indeed, significant amounts of such assistance are essential for preventing a further general decline in living standards. New ESF programs will be initiated in FY 1986 in Bolivia, Ecuador, and Peru to provide an incentive to these countries to accelerate the policy reforms needed to help stabilize their economies -- still suffering from the effects of extraordinary flooding and drought during 1982-84 -- and to help create an environment in which a sustained economic recovery can occur.

2. Structural Reforms. Economic growth will be faster, more employment- intensive, and more equitable for countries following a development strategy based on exports to external markets rather than one built around import substitution in highly protected domestic or regional markets. Export expansion provides the foreign exchange needed for imported materials and capital goods that generate higher productivity and increased

living standards. Small economies with limited markets and narrow resource bases are especially dependent on imports, and most of the LAC countries we are assisting are in this category.

The enactment by Congress of the trade provisions of the Caribbean Basin Initiative (CBI) in 1983 has provided increased export opportunities to this area. But expansion of nontraditional exports also requires structural reforms to correct overvalued exchange rates, eliminate tariff structures that promote inefficiency and saddle potential exporters with high-cost inputs, and change policies that artificially overprice labor and underprice capital. Legal and institutional reforms are also needed to encourage investment. Better policies and a stable political environment could generate a real growth rate of nontraditional exports of 20% a year by the end of the decade. That growth would significantly increase job opportunities and generate revenues needed to extend the coverage of social services and to rebuild and expand the infrastructure required to sustain rapid economic growth.

The main elements of our strategy for achieving export growth and the associated increases in income and employment are:

-- continuing our dialogue with cooperating countries on needed policy reforms and conditioning our assistance on appropriate structural adjustment;

-- supporting the greater commercialization of agriculture, the sector employing the greatest number of people, particularly for small farmers;

- increasing the availability of credit for production in agriculture and industry, particularly small industry, and for exporting;
- providing technical assistance and training for small business operators;
- assisting investment and export promotion and strengthening private-sector organizations;
- assisting in the development of free zones, industrial parks, and other mechanisms which simplify infrastructure and administrative problems facing private entrepreneurs; and
- financing infrastructure construction and improvements, especially for stimulating small-farmer production.

3. Overcoming Sectoral Constraints to More Equitable Development. The labor-intensive pattern of economic growth to be fostered through structural reforms will help the rural and urban poor through the creation of jobs. However, targeted programs also are needed to ensure that the benefits of growth will be widespread. Opportunities for the rural poor can be increased by providing them with greater access to productive resources, including land and credit, as well as by eliminating price controls and other disincentives to production. Improved access to education and health care in both urban and rural areas, and greater efficiency in the provision of these services, would enable the poor to take better advantage of employment opportunities. Over the long term, a reduction of population growth rates would make it easier for countries to meet their goals of reducing unemployment and raising living standards.

To address these sectoral constraints, A.I.D. will support programs to:

-- provide access to primary education for at least 90% of all school-age children, male and female, in those A.I.D.-assisted countries where this has not been achieved (Haiti, Bolivia, El Salvador, and Guatemala);

-- expand skills training, vocational training, and higher education programs to relieve key manpower bottlenecks to increased production and thus create more jobs both directly and indirectly;

-- improve health conditions, especially in rural areas, through malaria control efforts, dissemination of oral rehydration therapy, training of nurses and other health workers, and technical assistance and educational programs in the field of nutrition, thus lowering infant mortality rates to 75 per thousand or less and child death rates to less than 7 per thousand by 1988 in all A.I.D.-assisted countries where this has not been achieved (Haiti, Bolivia, Honduras, Peru, and Ecuador);

-- expand access to family planning information and contraceptive supplies, particularly through private institutions, to help bring about a reduction of the regional population growth rate from the 1982 level of 2.3% to 1.9% by 1988;

-- improve the access of poor rural families to land through support for colonization, legal reforms to provide secure land titles, and financing for land purchases;

-- provide better housing for low- and moderate-income families through technical assistance and, in Panama, a Housing Guaranty loan; and

-- assist refugees and displaced persons through programs that provide health services, educational opportunities, and productive employment.

4. Democratic Institutions and Human Rights. Economic growth will best support U.S. interests in the LAC region if it occurs in an environment in which governments permit their people to participate freely in local and national political processes; to form labor unions, cooperatives, and other voluntary organizations; and to have recourse to a judicial system that will administer justice fairly and speedily. Although the U.S. Government cannot dictate to governments how they should structure their political institutions and processes, we can provide our moral and financial support to those countries upholding democratic institutions and respecting human rights. A key element in U.S. economic assistance decisions in each country of the LAC region will be the degree of commitment of that country to free elections, independence of the judiciary, and respect for individual rights.

In support of this element of our strategy, A.I.D. will seek to strengthen the administration of justice through technical assistance, training, and material support for court systems, criminal investigative agencies, public prosecutors and defenders, justice ministries, law schools, and bar associations. A.I.D. will also provide assistance to improve the administration of elections. In addition, activities with private voluntary agencies will support the development of democratic institutions and processes by providing assistance to labor unions, cooperatives, women's organizations, and other participatory groups.

The process of democratization in the LAC region will also be supported by a major new training initiative, the Caribbean and Latin American Scholarship Program (CLASP), which will provide scholarships for study in the

United States and in the region itself to approximately 7,800 individuals. Of this number, 7,000 participants are expected to be trained under the Central American Peace Scholarships project (CAPS) over the next five years, a direct response to the NBCCA recommendation that more Central Americans be provided training opportunities in the United States. An additional 3,000 or so participants will be funded under U.S.I.A. programs, bringing the total to more than 10,000. Training will focus on priority economic, social, and political development needs.

THE CENTRAL AMERICAN INITIATIVE FOR DEMOCRACY, PEACE, AND DEVELOPMENT

The A.I.D. Response to Date

A.I.D. has streamlined its mechanisms and increased the resources devoted to managing implementation of the new Central America Initiative. Staffing levels in U.S. Missions and the A.I.D./W Office of Central America have been increased by 25% as recommended by an assessment of needs. An accelerated program has been undertaken to develop and process program and project documentation which includes, inter alia, the designation of Central America as one of A.I.D.'s two top priorities and the delegation of increased authorities to our field missions. A.I.D. recently reviewed the assistance portfolio for the region to assure that Missions and host countries can adequately implement the growing program. The results were encouraging, for they indicate no unexpected buildup of undisbursed balances.

As of February 22, 1985, $210 million, or 58% of the total $358 million provided in development assistance and economic support funds from the

Supplemental Appropriation approved in August, had been obligated under agreements with Central American Governments; the remainder will be obligat before March 31, 1985. This includes balance-of-payments support which responds to policy reforms adopted in El Salvador, Panama, and Costa Rica.

A.I.D. also has moved quickly to establish new programs recommended by the NBCCA report. For example, as I noted earlier, A.I.D. and the United States Information Agency (U.S.I.A.) are cooperating on the implementation of a program to provide 10,000 scholarships to Central America. The scholarship program has now been designed and approved. It is anticipated that the first 1200 students will have been selected and entered into educational institutions in the United States by September 1985.

Support for improved administration of justice has moved ahead quickly. A bilateral project in El Salvador has been approved, and activities in each of the countries have been identified for funding under a regionwide project. Options for strengthening the Central American Bank for Economic Integration (CABEI) have been analyzed, and A.I.D. is preparing an assistance project to be funded during FY 1985.

While Congress did not act on A.I.D.'s request for authority to create a Central American Development Office (CADO), as recommended by the Bipartisan Commission, A.I.D. has again proposed creation of an organization to provide a vehicle for regionwide consultation and coordination. Once approved, A.I.D. intends to undertake formal talks with prospective members to establish that organization.

Last year's legislation, in response to a recommendation by the NBCCA, authorized the initiation of a Trade Credit Insurance Program (TCIP) for the countries of Central America. This program, which is to be of short duration (thru September 30, 1989), is designed to compensate for the sharp decline in the flow of trade credits to Central America, a result of regional political instability and the international financial crisis which came to a head in 1982. Trade credits declined from a level of $500 million in 1979 to less than $100 million in 1983. Similar short-term Export-Import Bank credits also declined, from near $500 million to less than $150 million. Trade credit is still relatively unavailable, thereby negatively affecting economic growth and the balance of payments situation in the Central American region.

The FY 1985 Continuing Resolution authorizes A.I.D. during FY 1985 to enter into commitments to guarantee or insure loans for the TCIP not to exceed $300 million of contingent liability for loan principal. On December 19, A.I.D. and the Export-Import Bank signed an agreement for implement of the TCIP. Subsequently an initial allocation of guaranty authority was made as follows:

Belize	$ 5 million	
Costa Rica	$25 million	
El Salvador	$25 million	(later increased to $75 million in response to the Central Bank's implementation progress)
Guatemala	$25 million	
Honduras	$25 million	

It was understood that additional allocations would be made in the future based on each country's progress in utilizing the authority. A standard agreement between A.I.D. and the Central Bank in each of the five countries, inaugurating the program, has been negotiated and signed.

The Central Banks of El Salvador, Honduras, and Costa Rica applied to the Export-Import Bank for participation in the program, and last week the Bank's Board of Directors approved these applications. Applications from the remaining Central Banks are expected shortly. No insurance has yet been written under the program, although we expect that it will begin by April 1985.

The need for TCIP continues, and in the proposed legislation we are requesting guaranty authority totalling $500 million in fiscal years 1985 and 1986. Under the existing authority up to $300 million in lines of credit can be guaranteed in fiscal year 1985. These lines of credit are for one year's duration. Without further authority, the program will terminate when the lines of credit expire. Our request for fiscal year 1986 would permit guarantees totalling $200 million to be issued next year; should less than $300 million be guaranteed in FY 1985, the shortfall could also be utilized in FY 1986.

I am aware that the TCIP has generated some opposition. I believe that much of this opposition stems from our failure to clarify adequately the purpose and nature of this Program. Accordingly, allow me to make the following points.

-- The Trade Credit Insurance Program (TCIP) is needed to overcome a major constraint to Central American development -- the drastic reduction of short-term credit from U.S. banks which finances necessary imports into Central America. The U.S. banks have reduced their exposure because of their reaction to the political and economic turmoil in the area.

-- Central America can utilize productively, and repay, additional credit, notwithstanding the understandably conservative stance of the U.S. banks. The TCIP will encourage U.S. banks to increase their credit exposure or provide credit on more generous terms by guaranteeing them against their perceived risks. As a result there should be more and cheaper credit available to finance inputs required for industrial and agricultural production in Central America.

-- The TCIP is not designed to be a permanent program. It is a short-term effort to deal with an emergency situation in Central America. As the situation there improves, and as the U.S. banks perceive a reduction in their risk, the program will phase out.

-- The TCIP is not a "bank bail out." Many banks are currently providing no short term credit to Central America; others have reduced their exposure substantially; some are providing credit only on onerous terms. The TCIP will maximize the availability of short-term credit, on reasonable terms.

-- The TCIP is not intended as a program to insure "bad loans." The loans which will be insured under this program are loans from U.S. banks to commercial banks (or to the Central Bank) in participating countries, and are not tied to a particular import transaction. The TCIP will cover short-term (up to one year) lines of credit. U.S. exports, other than defense goods or services, will be eligible. All exports will be for the use of the local private sector. These will be good loans with strong repayment prospects. Repayment of the loan to the U.S. bank is backed by the local banks' entire assets. Since the Central Banks must incur the ultimate repayment obligations, they will have a strong incentive to permit only the most creditworthy and presumably strongest local commercial banks to participate in the program.

-- For the TCIP $60 million of appropriated funds in FY 1985 have been designated for a reserve, which will support insurance of up to $300 million -- a five to one leveraging. This is a far more efficient use of U.S. government funds than providing $300 million of direct assistance. (A similar ratio will be established for insurance authorized in subsequent fiscal years.)

-- Losses incurred under the TCIP should be minimal, since the Central Bank of each country of operation has agreed to guaranty the repayment of all credit provided under the program.

In brief, then, the TCIP is a program which can achieve significant results with a minimum cost to the U.S. Government. I hope that this committee will support our request for its continuation.

Addressing Program Goals

Under the FY 1984 and FY 1985 programs, progress is being made toward achievement of the goals established in each of the four key elements of A.I.D.'s strategy in Central America:

-- Economic Stabilization: This is the first step in the economic recovery process, and it is essential for achieving the other goals. For Central America as a whole the decline in GDP has been halted. GDP grew by 1.2% during 1984, a major turnaround from the 3.3% decline in 1982 and the 0.7% decline in 1983. Growth was positive in all the countries of the region, although only in Costa Rica was the growth rate positive in per capita terms. Costa Rica sharply improved its fiscal and balance-of-payments position. Panama has made progress under a stabilization program supported by the International Monetary Fund (IMF). Belize has taken major steps to reduce its fiscal deficit. Progress has been slower in other countries, but positive steps include increased incentives to exports through parallel exchange market actions in both El Salvador and Guatemala. In Costa Rica and Panama, our assistance has supported the efforts of the government to deal with its severe external debt problem. We have assisted the Government of Costa Rica in reaching bilateral rescheduling of official debts within Paris Club principles. Based on the progess to date, commercial banks are expected to provide $75 million in additional lending during 1985.

-- Laying the Basis for Long-Term Growth: The second element of our strategy focuses on the structural economic adjustment the countries need to make to move toward labor-intensive, export-led growth. There have been a number of important policy adjustments made over the past year. Belize has liberalized prices and taken other steps to encourage livestock exports; other reforms are expected to follow from the recently-completed agricultural sector assessment. Costa Rica has continued to adjust its exchange rate to maintain export competitiveness, has reached agreement on the terms of a new stand-by arrangement with the IMF, and is well advanced in its negotiations with the World Bank for a Structural Adjustment Loan (SAL). It has also enacted a currency law reform, expanding opportunities for private banks. El Salvador is encouraging non-traditional exports through activities supported by ESF assistance. The Government of El Salvador has also improved incentives to non-traditional exporters by permitting them to sell their earnings on the parallel exchange market, where the value is determined by market forces, rather than on the lower official exchange market. El Salvador has also made great progress in improving its overall foreign exchange management.

In Guatemala the recent legislation of a parallel exchange market to improve incentives for exporters without an official devaluation is an important measure for stimulating export diversification. Honduras, with A.I.D. support, has formed a Honduras-U.S. Joint Economic Working Group to formulate an economic stabilization program, and in mid-1984 the government enacted a package of measures to reduce the fiscal deficit. It is also implementing an A.I.D.-supported program to boost non-traditional exports. Panama, supported by a World Bank SAL, has removed price controls on some commodities; introduced a tariff reform; and sold some public enterprises to private groups. The recently-elected government has committed itself to politically difficult economic reform measures which will reduce the fiscal deficit, help manage its large external debt burden, and stimulate more rapid growth in employment and production.

-- Equity and Broad Participation in Development: While the growth in labor-intensive production discussed above will have positive equity results, A.I.D. is also addressing the equity element of our strategy through targeted assistance projects. Belize is now developing a housing policy, the implementation of which would benefit low-income groups both by providing new or improved housing solutions and by creating new job opportunities. Costa Rica, with the help of A.I.D.-financed project assistance, has taken steps to improve the efficiency of its health services system. El Salvador is taking steps to strengthen the agrarian reform program and to increase productivity on reform landholdings. It is also greatly expanding its services for displaced persons under A.I.D.-supported programs, including food rations, health services, and productive employment opportunities. Guatemala is assisting the poor, largely Indian population of the highlands through programs in agricultural development, health services, and bilingual education. In Honduras, A.I.D.-supported projects have made significant progress in legalizing land titles for low-income families, boosting coffee production on small landholdings, and providing improved rural health services. In Panama a program supported by A.I.D. Housing Guaranty (HG) resources provided 2,000 housing solutions for relatively poor beneficiaries during FY 1984, creating some 1,000 jobs directly and indirectly.

-- Democratic Institutions and Human Rights: The final element of our program is support for progress towards democratic institutions and respect for human rights. The presidential elections in El Salvador and the constituent assembly elections in Guatemala were important milestones toward the institutionalization of democratic processes in those two countries. Democratically-elected governments are now in place in Costa Rica, Belize, Honduras, El Salvador, and Panama. With A.I.D. financing, the Government of El Salvador is implementing a project to revise the legal code, strengthen the administrative capabilities of the courts, and assure security for the judiciary and the judical process. A regional project is being developed to assist countries in the region to strengthen judicial processes, to provide administrative and technical support for the training of lawyers, and to assist professional law associations and other related institutions. A.I.D. assistance is also promoting the development and strengthening of cooperatives, democratic labor unions, and private voluntary agencies.

ACCOMPLISHMENTS IN THE CARIBBEAN AND SOUTH AMERCA

In the Caribbean and South America, we are also seeing progress in each of the four strategic areas of A.I.D.'s program focus. The following are some of the more notable recent accomplishments:

Stabilization: Ecuador has periodically adjusted its exchange rate and taken other successful actions to correct its balance-of-payments disequilibrium, and it has eliminated its fiscal deficit. Both Jamaica and the Dominican Republic have implemented major stabilization programs centered on significant exchange-rate adjustments.

Structural Reform: Over the last two years, Ecuador has adopted a number of price liberalization measures, including reduced gasoline subsidies, elimination of some wheat subsidies, currency devaluation, and higher interest rate ceilings. Economic growth resumed in 1984. Jamaica has agreed to divest 30 publicly-owned productive enterprises and to diminish the role of the state coffee and citrus marketing organizations. In the Dominican Republic, nine rural savings branches have come into operation under the Rural Savings Mobilization project.

Equity: A Women's Training project in the Dominican Republic exceeded by 265% its target for intensive skills training in a poor urban neighborhood, and 108 women received small loans to start microbusinesses, with 60 loan applications pending as the project ended. In Jamaica, an evaluation of a Head-Start-type program with 121 pre-school centers, operated by CARE, found that those participating in the program benefited significantly, as measured by primary school attendance, retention levels, and other indicators. In Ecuador, several low-income housing projects are being implemented with Housing Guaranty Funds and associated Development Assistance grants.

Democratic Institutions: Private voluntary organizations (PVOs) supported by A.I.D. have encouraged the development of democratic institutions and processes by providing assistance to a variety of participatory groups. In Grenada, A.I.D. support for economic recovery helped provide a favorable environment for a return to participatory democracy.

FY 1986 PROGRAM REQUEST

In conclusion, let me briefly summarize the resources we are requesting for the LAC program in FY 1986. By appropriation, we are seeking:

-- $833.0 million in Economic Support Funds (ESF), with the following subregional breakdown:

-- Central America	$600.5 million;
-- The Caribbean	$160.3 million;
-- South America	$ 70.0 million; and
-- Regional Programs	$ 2.2 million.

-- $460.9 million in Development Assistance (DA), divided among the subregions as follows:

-- Central America	$268.6 million;
-- The Caribbean	$110.1 million;
-- South America	$ 57.4 million; and
-- Regional Programs	$ 24.8 million.

-- $257.3 million in P.L. 480 commodities, with the following subregional breakdown:

-- Central America	$110.8 million;
-- The Caribbean	$ 87.9 million; and
-- South America	$ 58.6 million.

By subregion, our total assistance request, including P.L. 480 resources, is:

-- $979.9 million for Central America;
-- $358.3 million for the Caribbean;
-- $186.0 million for South America; and
-- $ 27.0 million for Regional Programs.

These are significant sums of money compared to our assistance levels in the 1970s. But they have been made necessary by the depth and duration of the economic crisis in the region and by political/security threats to U.S. interests. As I stated earlier, U.S. assistance alone will not solve the region's economic crisis or ensure that current progress toward institutionalizing democratic processes will be maintained. But our assistance is having a significant positive impact in both of these areas. Our continued support at current levels of assistance will be needed for FY 1986 and most likely for the remainder of the decade.

Thank you.

Senator **Helms**. Thank you.

Aid to Mexico is not in this particular budget, but Mexico is the beneficiary of considerable——

Senator **Pell**. Excuse me, Mr. Chairman. Are we under the 10-minute rule?

Senator **Helms**. Yes.

And is certainly one of the most prominent countries with which we deal in the Western Hemisphere.

Now, am I correct that the United States, Mr. Motley, is now purchasing oil from Mexico for the strategic petroleum reserve [SPR]?

Ambassador **Motley**. I believe that to be correct, yes, sir. I do not know the amounts, but I believe it is.

[The information referred to follows:]

Yes. Mexico currently sells 50,000 barrels per day (bpd) to the SPR under a five year contract signed in August 1981. In August 1982, a separate contract was negotiated on favorable terms for sales to the SPR during Fiscal Year 1983. Shipments under that contract have been completed. Payment was made in advance on that contract as part of the emergency assistance package put together in response to Mexico's financial crisis.

Senator **Helms**. Is my understanding correct that Mexico is pumping oil at what might be called a record pace?

Ambassador **Motley**. I am not sure as to their levels of production, Mr. Chairman. I can get those figures for you. I do know that there was an attempt among the producing countries under the OPEC to regulate their production, and I think it met with mixed success. But I will be happy to get those figures for you.

Senator **Helms**. That will be fine.

[The information referred to follows:]

Mexican petroleum production reached a level of 2.7 million barrels per day in 1982 and was slightly lower in 1983 and 1984. Production had increased rapidly beginning in the late 1970's as newly discovered oil came onstream in an environment of rapidly rising prices.

Ambassador **Motley**. You may recall, Mr. Chairman, that the sales to the SPR by Mexico were part of the financial package that was put together in September 1982, and with the exception of Mexico, the purchases for the SPR I believe are all on a spot market competitive price basis.

Senator **Helms**. Well, in any case, I am sure that increased sales to the strategic petroleum reserve has encouraged the Mexicans to increase their production.

The question I am getting at, is it not a fact that we could obtain the same oil at a cheaper price from the Middle East on today's market?

Ambassador **Motley**. I do not know, but I will get the answer to your question. As I said, Mr. Chairman, I think that as part of the financial package there was an advance payment made by the United States Treasury to Mexico sometime in late 1982 or 1983. I have not thought about it recently. And I believe what we are receiving now from Mexico is oil in return for that payment.

But I will get those figures for you.

[The information referred to follows:]

Oil for the SPR is purchased at the best available commercial rate as required by law. Purchases are made on the spot market or by term contract depending on market conditions and DOE's purchase requirements. DOE has sought to have a mix of spot and term purchases, although currently all new purchases are made on the spot market due to prevailing soft market conditions. The August 1981 contract was executed in response to DOE's need for a reliable, secure long-term sour crude supply, which only Mexico was willing to provide. The transaction also offered a price advantage over other alternatives and U.S. flag shipping opportunities.

Senator HELMS. All right. I have a series of questions in writing I will file with you. I think it is important to have answers to them.

Being chairman of the Agriculture Committee, I would like to know how much food the United States exports to Mexico and on what terms it is exported. The United States is helping Mexico with the purchase of oil at a price higher than we could get it elsewhere. What are the American farmers, for example, getting as a quid pro quo?

Ambassador MOTLEY. I think that is a good question, Mr. Chairman, and I will let Mr. Rivera give you the details. I think there is a considerable amount of sales, including under CCC credits and otherwise.

Mr. RIVERA. I will get that answer for you and submit it to you later, sir. I do not have it with me right now.

Senator HELMS. Would you gentlemen pull your microphones a little closer—it is difficult to hear.

Mr. RIVERA. There is no Public Law 480 in Mexico. We will obtain whatever data you require.

Ambassador MOTLEY. We will also get that under CCC credits, which I think is probably of importance to your answer, too. It does not necessarily come under AID, but we will get those answers for you.

[The information referred to follows:]

U.S. FOOD EXPORTS TO MEXICO

As an advanced developing country, Mexico does not qualify for food aid under Public Law 480 title I or II. However, Mexico qualifies for two sales programs and one grant program administered by the U.S. Department of Agriculture: the Commodity Credit Corporation's (CCC) Credit Guarantee Program, the Government-to-Government Direct Sales Program and the Section 416 Dairy Program.

In FY 1984 the CCC guaranteed $651.9 million lines of credit for export to Mexico of Six U.S. agricultural products (corn, eggs, sorghum, soybeans, sunflower seeds and tallow). This fiscal year $700 million in guaranteed lines of credit has been announced for exports of feed grains and oil seeds. The CCC guarantees 98 percent of principal and 8 percent of interest on commercial loans negotiated by Mexican importers and their commerical banks. Loan repayment periods may extend up to 3 years.

U.S. sales to Mexico under the Government-to-Government Direct Sales program totalled 20,000 metric tons of non-fat dry milk valued at $15.4 million in FY 1984 and 10,000 metric tons of non-fat dry milk valued at $7.4 million to date this fiscal year. Receiving governments must pay cash for shipments under this program within 30 days of invoicing.

The Section 416 Dairy Program allow grants of dairy products to qualified recipients in developing countries through United States or Host Country voluntary agencies' maternal-child health programs and programs for disadvantaged people. In FY 1984, the U.S. Government made available to Mexico 31,700 metric tons valued at $29.5 million under grant agreements with four U.S. volunatry agencies. In FY 1985 to date, 19,508 metric tons valued at $20 million has been committed under grant agreements with three voluntary agencies.

U.S. commercial agricultural and animal product exports to Mexico represented 6 percent of total U.S. exports to Mexico in 1984. Corn shipments—usually the largest farm export—fell sharply in response to strong Mexican production, while oilseeds exports, mainly soybeans, almost doubled to become the largest U.S. farm export to Mexico. Of the top 10 categories of U.S. commodity exports to Mexico in 1984, soybeans and other oilseeds ($474.4 million) was number two, corn ($415.2 million) was number four, grains and sorghum ($299.3 million) was number six and sunflower seeds ($206.9 million) was number ten. (All sales figures in FAS values.)

Senator HELMS. I also have questions relating to what Mexico is doing to help us curb the drug trade. I would like to have you answer that now.

Ambassador MOTLEY. All right, sir. The issue of narcotics and with regard to Mexico, was highlighted by the tragic incident in western Mexico which resulted in the death of one of our DEA agents. Subsequent to that time, just last week there was a meeting between their Attorney General and our new General Attorney, mainly to look at, not only the investigation of that case, but also to see what can be done to continue what in the past had been at several times a fruitful relationship between our law enforcement agencies and the Mexican ones. And I think what they have done is reinvigorated some of their programs precisely in the area of the crop eradication and also worked on some joint teams to follow up on some of the drug trafficking in Mexico.

There was also a tightening of inspection of vehicles, trains, automobiles, trucks, and airplanes that go from Mexico to the United States in anticipation that that border shutdown that we had a while back had built up a backlog, and that in fact the drugs were prevented from coming in, and they felt that the shipments would be larger; therefore, the inspection of trucks and buses and trains and airplanes.

Senator HELMS. Immigration is another question that I want you to answer in writing. Mexico's economic distress is causing an overload of the circuit even above what has been going on earlier in terms of illegal immigration in the United States. Is Mexico really working with us trying to bring that under control, or are they just sitting back watching it happen?

Ambassador MOTLEY. I think it is fair to state that they do not have as active a program to prevent people coming across their borders into the United States as we have to try to prevent people coming into the United States. I think that is a fair assessment.

The interesting thing, Mr. Chairman, aside from Mexicans, a favorite acronym along the border and in the border interdiction of immigrants is OTM, and that is that when they separate illegal immigrants that they catch, they put them into two separate categories, and OTM stands for "other than Mexicans." And so we are seeing a flow of illegal immigrants also—and I do not have the numbers for you, but I can get them for you from INS—of nationalities other than Mexican coming across the Mexican border, that is, Central Americans mostly.

[The information referred to follows:]

For example, in 1984, 31,224 of the aliens apprehended after crossing the Mexican border were OTM.

They do not view their responsibility to be to prevent people from leaving their country as much as we see it to prevent illegal immigrants from coming into the United States.

The Mexican Government has been helpful in locating and prosecuting those individuals who guide illegal aliens across the border for a fee. Mexico's ability to prevent its citizens from crossing the border illegally is limited by the fact that there are no Mexican laws or regulations restricting the right of Mexican citizens to leave their country.

Senator HELMS. Well, to be honest with you, if I had to choose between the drugs and immigration in terms of which is the more serious problem in the long run, I think I would come down on the side of drugs. And this Senator is less than satisfied with what Mexico is doing in the way of cooperation. There seems to be a total disinterest. I recall your predecessor, Tom Enders, sitting exactly where you are sitting a couple of years ago. I asked him the same question, and he assured me that there was no problem, that my concern was ill-advised and that sort of thing.

Now, do you think that my concern is ill-advised?

Ambassador MOTLEY. No. I think both of them are a continuing problem. I was, as I am sure many of the Members of the Congress were, disappointed that after such hard work over several years that we are unable to get an immigration bill that would have at least set the parameters for immigration policies; that we have not had a revision in them since the 1950's, and things have changed a lot.

But no, I would agree with you that both the drug issue, not only with regard to Mexico but other countries, is a continuing problem, and I think that the immigration, the illegal immigration problem is one. And if we have a further destabilization in Central America because of one reason or another, I would indicate to you that we would have a much tougher illegal immigration problem, a much larger flow.

Senator HELMS. Well, I think that a signal ought to be sent on every occasion that we can send it to Mexico that they had better clean up their act with respect to cooperating on this drug problem and also immigration. I, for one, think that if they are unwilling to do it——

Ambassador MOTLEY. I think they are two separate problems, Mr. Chairman.

Senator HELMS. I understand. I identified them separately. But I am saying that if they are not willing to cooperate, we ought to take a look at all of the aid programs going to Mexico. I hope the President of the United States will take that position, and maybe Mexico will get the message and prevent some of the things that are going on. A great many Americans are concerned about this, and they are going to back the President if he will take such a position.

Senator Pell.

Senator PELL. Thank you very much, Mr. Chairman.

Mr. Secretary, I am curious where the threat to Haiti comes from? Why for the first time in years are we going to provide military assistance for Haiti.

Ambassador MOTLEY. Well, Senator, I think if you look at it, it is a modest amount. And what we have found is that the Haitians in the past have been cooperating with us, both on drug interdiction and the return of illegal immigrants. The purpose of this modest amount of military aid is nonlethal. It goes to their navy which has cooperated with our Coast Guard quite extensively on both those programs.

Senator PELL. Does the total amount of the military assistance aid go to their navy?

Ambassador MOTLEY. My understanding is that the large bulk of it is. I do not know if I can give you that definitive of an answer. Maybe Nestor can.

Mr. SANCHEZ. We are giving them $500,000 in MAP, or that is what we are asking for.

Senator PELL. Right.

Mr. SANCHEZ. And $475,000 in IMET, which is the training program.

Senator PELL. But will it be directed exclusively to the navy? That is my question to you. Mr. Motley said that the main bulk of it was to the navy. Is that correct?

Mr. SANCHEZ. Yes. The breakdown of the $500,000 for MAP is for communications equipment, repair services, and logistic support for the 40-foot patrol boats. So it is primarily for the navy, sir.

Senator PELL. Primarily for the navy.

All right. My next question concerns Guatemala, which so far has managed to stay out of the cauldron in Central America. Why for the first time in a while are we giving her military assistance? What is the rationale there?

Ambassador MOTLEY. I think they have had a very active insurgency problem, guerrilla problem in Guatemala, and with no thanks to U.S. assistance have managed to handle it fairly well. Again, the modest amount of money that we are suggesting for Guatemala goes for the replacement of wornout equipment and the repair of spare parts, along those lines, as they combat their insurgency.

The last session of Congress you may recall, Senator, we did include some money, and the Congress did pass a modest amount. And I think it was in recognition of the steps taken by Guatemala in returning to democracy. They had an election in which they have drawn up a constituent assembly. They expect to have a presidential election later this year.

Senator PELL. I think where we probably differ is you look on military assistance as being a carrot that is awarded a country if it behaves itself and does a good job. To my mind military assistance should only be given to a country if it is in danger of outside attack.

Ambassador MOTLEY. Well, I take what you said, Senator, but I have, and I think the Congressional Record and the hearings in this body and in the other body will show that many times many of your colleagues, not only in the Senate but in the House, have objected to military assistance not for the basis of a lack of a threat, but because there was a lack of democracy or human rights or something of that nature. And they are entitled to their opinion.

But what I am pointing out is that in answer to those valid statements, I think you will find that Guatemala's human rights record as evidenced in our latest human rights report is better than it has been in the last few years, and I think it also shows that there is a step back. And I think that the purpose of our aid, where we can, and it is limited, is to help our friends where we can. And threats can come from within as well as without in the armed sense.

Senator **Pell**. I know that my own emphasis has been more on economic assistance and development assistance and less on military unless it is needed.

Let me touch on El Salvador for a moment. I noticed that the certification requirement has been omitted from or is not included in the administration's request.

Ambassador **Motley**. That is correct.

Senator **Pell**. What is the reason for that?

Ambassador **Motley**. Well, I think what you have in El Salvador today is a country that has met a lot of the tests that Congress would have liked to have seen in the past. You have a democratically elected president in the form of Mr. Duarte. I think we can lay down conditionalities on our aid. We have done that in different forms at different times.

But I think it is rather difficult, if you take one recent version that I have seen in the other body, that if it does not turn up a green light on all five items that you then cut off aid. I think that that is an unrealistic way to approach things.

Senator **Pell**. Thank you. No further questions.

Senator **Helms**. Thank you, Senator.

Senator Kassebaum.

Senator **Kassebaum**. Thank you, Mr. Chairman.

I believe that it is correct that the administration is asking for multiyear authorization for Central America, and that is the only area in which there is a request for multiyear authorization, is that correct?

Ambassador **Motley**. The only area that I am familiar with within the hemisphere that I deal with——

Senator **Kassebaum**. Well, I know it does not apply to Africa.

Ambassador **Motley**. Well, I have been accused of being parochial. I do not know what goes on in the rest of the——

Senator **Kassebaum**. Well, I think every area would, to a certain extent, like to see a multiyear authorization if indeed there is a justification for such. I personally have long believed that it would help with stability and planning, not only for ourselves but the countries with whom we are working, and I think it has much to recommend it.

But I have some problems with considering it just in this area unless we are going to consider the whole question about multiyear authorization.

Ambassador **Motley**. I think that is a good point. I would just say that maybe the rest of the areas other than Central America have not benefitted from a bipartisan Kissinger report that led to a Jackson Plan, as part of it was a call for a multiyear precisely for the reasons that you gave. And that was what we did when we translated the Jackson plan, the Kissinger report, into the Jackson plan legislation. We were faithful to it in calling for the multiyear. But by the same token, we understand that it is an unusual move by Congress; but I think it does have the merits that you pointed out to be considered.

Senator **Kassebaum**. Well, Ambassador Motley, one of the things that has concerned me was not the thrust of the Kissinger Commission's recommendations but the implementing institution, so to speak. I think none of us are sure exactly how all of this is going to work. At least I am still uncertain, and I would like to ask some questions about the Organization of Economic Development.

Is that not the main implementing institution, or is it just one facet of of the whole operation.

Ambassador **Motley**. Yes, it is, and I will let Mr. Rivera address that issue. But let me tell you that you will be happy to know that very shortly we will be coming out with a first year report on the Jackson Plan. We are presently circulating it back to the members of the Commission for their comments, but I would expect—I cannot remember what the publication date is, but within a couple of weeks. And I think that will give you more detail of where we have seen we have done well, and where we can see whether you want to address the question of how we are proceeding.

Senator **Kassebaum**. That would be very helpful as we consider the question of the authorization.

Mr. **Rivera**. As of March 31, we expect that about two-thirds of the fiscal 1985 moneys will be obligated. This is a progress report, and we expect that 100 percent of the fiscal 1985 moneys will be obligated by July 31.

What we have set up, and this is important, is a monitoring system, a computerized monitoring system of projects to identify the status as we go along of each of the recommendations. There are some 40-odd recommendations in the Kissinger Commission, and we have been monitoring the progress of all 40 of them. So there is a system in place to monitor the recommendations, as well as to accelerate the implementation and the obligations of the moneys.

Senator **Kassebaum**. But for the Organization of Economic Development in and of itself, do we know what countries will be participating, which have indicated they want to participate and who the other donor countries will be?

Mr. **Rivera**. The CADO process. We are studying—the concept obviously is an attractive one. We feel and agree with the Kissinger Commission recommendations that an entity of that sort is needed, and we are awaiting the completion of a study that would present other alternatives or a series of alternatives to the implementation of the CADO.

Ambassador **Motley**. It is a different restructuring of it, Senator. How it should be structured was to a certain degree a difference of opinion among some of the members of the Commission, and as we found in our consultations last year in the House and the Senate, including in this committee, there were differences of opinion on it. And what we were trying to do was meld a structure of it that could take into account all of the differing opinions.

And with the caveat that Mr. Rivera has given you, I think what we are going to see is hopefully a membership made up of a consultative body with a requirement that there be a consultative mechanism with this body prior to the disbursal of the final portion of U.S. funds to get around the, I think, legitimate objection some people had that we cannot have seven different or twelve or whatever different people outside of the Government dictating to the Congress and the administration on how you will spend the taxpayer's dollar.

But we are trying to bring that all in, and I think in a short period of time we will be able to present to you a mechanism that hopefully reflects all of those feelings.

Senator **KASSEBAUM**. I believe it was in the continuing resolution which we ended up with last year, $300 million for the trade credit insurance program.

Ambassador **MOTLEY**. That is correct.

Senator **KASSEBAUM**. Which has not been used, is that correct?

Ambassador **MOTLEY**. Yes, that is correct. And the reason that it has not been used is that we had to get together with the central banks of the other countries and with Exim. And at this date what we have is agreements with Honduras, El Salvador, and Costa Rica.

Mr. **BROWN**. All five.

Ambassador **MOTLEY**. Oh, we have all five now? And so we are just at the final portions of being in a position to start using those funds, and it is for that reason that we are requesting the additional in the fiscal year 1986, because trade credits were found by the Kissinger Commission and I think by the Congress that examined them to be one of the short-term real ways available of funding to get trade and commerce going again in that area. But we have got now agreements from the five countries.

Senator **KASSEBAUM**. This is to assist with their exports or with their imports?

Ambassador **MOTLEY**. Which is it?

Mr. **RIVERA**. Their imports.

Ambassador **MOTLEY**. Their imports.

Senator **KASSEBAUM**. Strictly the imports.

Ambassador **MOTLEY**. Yes. It can be from each other, too, right? It is to facilitate their credit facilities for being able to move trade, that is right.

Senator **KASSEBAUM**. But this would not include the imports of food, I would not think, because they use the Commodity Credit Corporation.

Ambassador **MOTLEY**. That is correct.

Mr. **RIVERA**. It is imports for economic production for raw materials, capital goods.

I should mention, Senator, that there has been a decline of about $750 million in short-term credit available in Central America. This would go some ways in helping to increase credit availability, which obviously has an impact on U.S. exports and jobs to those countries.

Senator **KASSEBAUM**. So it is simply to assist with credit availability for purchases. It is an additional resource that can be available to them.

Mr. **RIVERA**. Yes, correct.

Senator **KASSEBAUM**. Thank you, Mr. Chairman.

Senator **HELMS**. Thank you, Senator Kassebaum.

Senator Dodd.

Senator **DODD**. Thank you, Mr. Chairman. I am delighted we have this opportunity to meet with even you at this late hour, and as you know, right in the midst of our markup of the foreign aid bill. But I am delighted nonetheless that we have this chance.

I wonder if you might, Mr. Secretary, let me focus my remarks to you, and then any of the others who would care to comment please feel free to do so.

I would like to focus my remarks in the first round on the situation in Honduras-Nicaragua, if I could, which you have addressed in your opening statement. There have been a number of rumors or news reports around this town about how the administration might go about its funding of the contras in Nicaragua. There have been suggestions that it would be done through private groups or through funneling funds through friendly third nations, or possibly through a new category of assistance and asking the Congress to fund the program openly.

I wonder if you might share with this committee what the administration has decided to do about contra funding. Have you come up with a proposal that you will submit to the Congress, or have you chosen an alternative to that proposition as a way of providing the outstanding, I think, $14 million?

Ambassador Motley. Yes. We have spent a considerable amount of time, not just since the continuing resolution but prior to that, to see if there were alternative ways to fund what you call the contras, what we call the Freedom Fighters, but we are talking about the same people, mainly because we know that there was some resistance in Congress toward that program. And so in the interest of trying to be accommodating, we have looked at a variety of different ways.

The state of play today, Senator, is that as part of the continuing resolution there is a prohibition against any U.S. assistance whether direct or indirect, which to us would infer also soliciting and/or encouraging third countries; and we have refrained from doing that because of the prohibition. And if you believe the conventional wisdom that the U.S. funding, if there was any, ran out in June of last year, somehow the contras are alive and well in Central America.

And so the issue becomes whether the administration will come down. I think that you can expect it to come down. As you know, it was a rather unusual parliamentary procedure parallel to the MX one that is set up now. It is triggered by the President making a report sometime after February 28. I cannot give you a date on when that will be done, but I think you can expect sometime after the recess that the administration will be coming down with the required Presidential report, and that will then trigger that period of debate that takes place in the Congress. And the resolution, as you know, is already written. I mean that is all part of the continuing resolution language, and so it is there.

We have looked at a variety of different ways to see if we could avoid or satisfy some of the objections that have been voiced at different times. I think that we have looked at overt assistance at a variety of times even before last October, and I am still looking, and I do not find any way of——

Senator Dodd. I am sorry?

Ambassador Motley. I find no way, no kind of an overt mechanism that works.

Senator Dodd. So we will go the covert way.

Ambassador Motley. Pardon?

Senator DODD. We are going to go the covert——

Ambassador MOTLEY. We are going to go in accordance with what the resolution lays out now.

Senator DODD. Well, let me see if I understand correctly what you have told me, that the President will file the report at some time in the next several weeks, and that the administration will go through the normal process of trying to secure a positive vote in both Houses of Congress to support the releasing of those $14 million. And what you are telling me further that the administration in no way will seek to provide assistance to the Contras through third country financing or through the use of any other category within the foreign assistance legislation as a way of providing the assistance to the Contras.

Ambassador MOTLEY. Let me make sure I understand what you understand what I said. [Laughter.]

First, the last time I checked with the President it was his intention to go ahead with this funding. I will not put fences of weeks around it. I said after the recess. Even if today we wanted to go to third countries to encourage or solicit, we could not because there is a prohibition.

And if you look at the way—and I have spent more time than I am sure that everybody wanted with your parliamentarians and the rest of it—you cannot get there from here unless you face up to that resolution and that process that was written in the continuing resolution. There is a procedural problem, that if you do not confront that, that is part of law.

Now, if there is some other kind of expedited procedure that the Congress would like to entertain, we are open to all kinds of things. We are not looking for a fight.

Senator DODD. I know you are not.

Ambassador MOTLEY. We are just trying to get a program, a needed program off and running.

Senator DODD. I understand.

Ambassador MOTLEY. And I am open to any ideas. But when I put forward, people say overt and then it is period.

Senator DODD. What I am getting at here is that you are obviously looking for alternative funding arrangements. You have obviously read the resolution and I gather spent countless hours examining ways looking for alternative ways of doing it. Bright, sharp lawyers who read resolutions——

Ambassador MOTLEY. I have trouble with the ones who write them, not the ones that read them.

Senator DODD. Well, that aside, looking at these resolutions, there are always clever ways of discovering something that may have been omitted. All I am asking from you is, and from the administration more directly, is whether or not we can have an assurance that there will be no indirect efforts made to finance the Contra operation through third party nations or through other vehicles within the Foreign aid authorization to finance this operation, that you will proceed pursuant to the resolution as adopted on the continuing resolution.

Ambassador MOTLEY. I think that was one thing that was loud and clear with us when I started. I told you that we understand what it means, direct and indirect, including third party. We take it to the letter of the law at its most liberal interpretation. And I can assure you that we have done it in the past. You want my assurances that we will continue to do it in the future, and if you feel that is necessary, I will so give it to you.

Senator DODD. We have that assurance, then.

Ambassador MOTLEY. That is right.

Senator DODD. I thank you for that.

Ambassador MOTLEY. I think that is an easy assurance to give, Senator, and that is that I will continue to comply with the law as I have in the past.

Senator DODD. Well, I was not suggesting, Tony, you would not comply with the law, but as you and I both know—in fact, you just stated you are spending countless hours looking at it. I presume what you are doing is looking to see if there are other ways. And I understand that. I just want to get some assurance that having looked at that, even though you might find some other way that may exist very legally, not illegally, that we would provide for under the provisions of law as adopted here, and that there is an assurance to be given by the administration that despite the fact that some loophole may exist that that loophole will not be taken advantage of, and that we will proceed according to what the clear intent was of the majority of the Congress who supported that proposition. And that is to come before the Congress and ask for a positive vote from both the House and the Senate before the $14 million would be released. That is all I am requesting, not that anything be done illegally. Sure it would be done legally.

Do I have that assurance?

Ambassador MOTLEY. Senator, I think I have given it to you before. If you need it again, I will give it to you. We are going to continue to comply with the law. I am not looking for any loopholes. When I said I was looking at it, I was trying to figure out a way to come about your objections and others so that the Congress, and we, the administration, together could go ahead with a program that we believe strongly in.

Nobody is trying to play games with you or any other Member of Congress. That resolution stands, and it will continue to stand; and it says no direct or indirect. And that is pretty plain English; it does not have to be written by any bright, young lawyers. And we are going to continue to comply with that.

Senator DODD. Fine.

Could you state for us as clearly as you can what the administration believes to be the objectives of the contras; and what we believe the contras' objective should be; is there any conflict between those two sets of objectives, and if so, how do we resolve them.

Ambassador MOTLEY. Well, I do not know if there are conflicts or not, but I think probably the best manifestation of what both the armed and the unarmed opposition to the Sandinista regime in Nicaragua want is fairly clearly stated in their March 2 declaration which they made in Costa Rica. And what you had there was a bringing together of the armed opposition—that is, the freedom fighters—and the unarmed opposition made up of several people that are not part of the armed opposition but have been in opposition to the Sandinistas. And that is a very clear thing and I think a significant part of that. And when we debate this issue with our friends in Europe and others, it is a symmetry that they have trouble reconciling. Because what you have there is an attempt on the part of the armed and unarmed saying OK, we will sit down with you, we will let the bishops be the mediator, we are making an initiative to sit down and talk. And the Sandinistas will not even let the emissary into the country to deliver the statement to the bishops.

And on the other hand, you have in El Salvador an attempt on the part of the government, in this case Duarte, making that initial offer to the guerillas and not the other way around. So I think that they are, as manifested by their declaration, interested in finding some kind of reconciliation and getting an internal dialog where they can participate in the process.

Now, I am sure that you can probably talk to several of the 15,000 freedom fighters, and you may find that some of them do not want to stop short of that. But because we have no direct or indirect assistance to them, we do not really talk with them that much.

And so I think your question is a valid question. I have tried to be responsive to it. But I think the more important thing is why is it that the administration wants it; what is in the national interest. I would think that would be the more important.

Senator DODD. I will come back. My time has expired, so I will wait until my next round.

Thank you.

Senator HELMS. Thank you, Senator.

Senator Murkowski.

Senator MURKOWSKI. I would ask what is the administration's justification for pursuing this particular point that has already been referred to by Senator Dodd. In other words, why is the administration's position the correct position?

Ambassador MOTLEY. Well, I think if you look very quickly, Senator, at the history of what we have been able to get done in Central America through the participation of the Congress, the Jackson plan, the rest of it, the fact that there are now democratically elected countries and the rest of it, you find very quickly that Nicaragua is the odd man out, that the rest of the program through the Jackson plan is working well. And so, Nicaragua being the odd man out, made up of a group that really is not representative through elections, as you and I know them, that have consistently since 1980 exported their revolution and supported the guerillas in El Salvador.

And so in trying to deal with this we told the Nicaraguans—when they asked us what is it that you want from us—we outlined the four points that are well known to this committee and others, to wit: Stop exporting your revolution; No. 2, get rid of the Soviet and Cuban military advisers—they are not doing you any good, they are distorting your whole national plan; No. 3, do away with the imbalance in the military forces between yourself and your neighbors; and No. 4, do what you said you would do in the OAS, and that is, have democracy, freedom of assembly, freedom of the press, and the rest of it.

Now, those are our goals. Our objective is to get a modification of behavior on the part of the Sandinistas on those four points, and we believe that what you have to do is employ all of the tools that are available to you. And they include diplomatic tools, they include economic tools, they include the different pressures that you can bring about on them. That is in addition to the fact that these are Nicaraguans that are there in fact, that want to achieve some of the same objectives.

And so we think it is a very legitimate part of the overall parcel of what I talked about earlier about the parameters of our policy. We do not want a second Cuba. We do not want a second Vietnam. And within those parameters you have the Jackson plan and you also have the support for the freedom fighters.

Senator MURKOWSKI. Mr. Chairman, I have just one other brief question. I would like to hear for the record why in the opinion of the Secretary so many groups, particularly of a religious affiliation or nature, go down on missions of some sort and come back with a well-intentioned point of view that we do not belong, we should not be there, and we are incorrect in the process that we have brought to bear in urging more conformity with Nicaragua. It seems to be a very negative response that comes back with these groups that I have talked to and have corresponded with; yet, they seem to go down open-minded and come back with a point of view that is contrary to that that is fostered by you and the administration.

And I am wondering if you could tell me briefly, in your opinion, how this process occurs when they visit the region. Are they propagandized, or why can they not get a more objective picture such as you have suggested?

Ambassador MOTLEY. Well, I think there may be—I do not know, Senator. I would share your assessment that there is a variety of church groups and from a variety of faiths, too, that do in fact go to Nicaragua. There appear to be more groups going to Nicaragua than other places in which there is poverty and the rest of it, and why I do not know, whether they are solicited invitations or there is a direct interest there or something.

But the net result is what you have when people who are deeply committed, who want to do well, go to a country. Normally when they arrive there they are to a certain degree directed by the Sandinista government and facilitated with transportation and travel and the rest of it. And that is fine. That is a normal aspect. And they will go somewhere, and they will be confronted with poverty, something that they have not seen in their country. They could find some of that same poverty in other parts. They will be confronted with other things. You have a civil war to a certain degree. The freedom fighters are engaged in an armed conflict, and so that they are then exposed to things which they are told were caused by these people.

Now, in a war you are going to have destruction of property, when you have a civil war. You used to have some of the same stuff in El Salvador. And so I think they then come back with—going to specific places, I think they come back with—they can say I have been there. That is more than some people can say. Chances are they have been to where the Sandinistas want them to go, and they have seen what they want.

I do not find many of them stopping by the American Embassy and saying gee, they want us to go in this place; is there any place else we ought to go. So then they return, and then they write letters to you, or call you, or come see us, and we talk with them.

Senator MURKOWSKI. Thank you, Mr. Chairman.

Senator HELMS. Thank you, Senator.

Senator Kerry.

Senator KERRY. Thank you, Mr. Chairman.

Mr. Secretary, over the last 4 years there has been a significant amount of criticism from the administration of the Congress for its alleged unwillingness to provide the wherewithal for the administration to accomplish its goals in Central America, in particular El Salvador.

Do you share that feeling that the Congress has not given you what you have asked for and need?

Ambassador MOTLEY. I think that that was a fair statement, certainly up through the supplemental request for fiscal year 1984 and then the continuing resolution, because except in rare occasions and certainly not in the area in which I work, rarely does the administration say no, you are giving me too much. I understand it works in other parts of the world, but I cannot really attest to that.

But let me just say that I think the Jackson plan, which was reflected in the fiscal year 1984 and in the continuing resolution of 1985, was a heavily debated issue, one in which both sides came away feeling there were fairly adequate levels. And so generally speaking, those levels, and the 1986 was envisioned, as the Senator from Kansas said earlier, there was a multiyear approach and numbers laid out on it. And as long as, I think, we stay on that track, at least generally speaking, that criticism you have talked about about unwillingness, certainly as far as Central America, may not be valid.

Senator KERRY. We get our assessment of what the requirements are from the executive branch from you; is that correct?

Ambassador MOTLEY. You get your assessments?

Senator KERRY. Of what we need to give. In other words, to determine whether we have given enough, we have to measure it against what you have asked for—correct?

Ambassador MOTLEY. Yes; I think that is correct.

Senator KERRY. Now, this year for El Salvador you are asking for $132 million in military assistance alone—correct? Is that right?

Ambassador MOTLEY. Yes. I believe——

Senator KERRY. Is that enough to do the job?

Ambassador MOTLEY. Well, Senator, when we put it forward, that is what we think it is, and we hope that it holds. That is not to say that this administration has not come up at different times—and other administrations—with requests for supplementals. But if your question is are we envisioning a supplemental for El Salvador or any part of Central America, I think in light of our own budgetary challenges and the rest of it, that nobody at this time is thinking seriously about a supplemental.

Senator KERRY. I am troubled about that. I am not sure that sitting here as a first-term legislator in the Congress I can find confidence in that. Because if I go back and look at 1981, your request for military aid in El Salvador was $5.5 million. You spent $35.5 million. In 1982 your request was $29 million. You spent $82 million. In 1983 your request was $61 million. You spent $81.3 million.

In 1984 your request was $86.3 million. You spent $196.8 million. And we do not know yet where the supplemental is for this year.

Now, why after 4 successive years, every year the administration has sent a request to this Hill, each [illegible] those requests being outlandishly out of proportion to what was ultimately spent, why should we have any confidence that things will be different this year? Isn't the sending of a request to us a kind of game playing, a masking of what the real costs are going to be and what the administration believes are its requirement for that region?

Ambassador Motley. Well, Senator, I would reply to you that prior—of course, you bear no blame or credit—but prior to your coming here, what we really do is we do not work with budgets; we work with continuing resolutions. And so as you get near the end of September, there is a lot of melding of what would be in a budget with freezing of last year's level, and you and I are not used to running our businesses that way. But to a certain degree I think that does confuse the issue.

What I was looking for here were the—because I have those same numbers as you have—and I think that what they show is that what was passed by the Congress and what was requested showed significant differences right up through 1984—one.

Second, there is a lag time—a pipeline time that I think may——

Senator Kerry. If I can just interrupt you for a minute, the authorized amounts by the Congress were in many cases initially less than your original requests.

Ambassador Motley. Considerably less.

Senator Kerry. I agree, but that is not the issue. If in an authorization Congress had to come up to the level you had requested, that would be one thing, but having to come up in one case most recently to three times the level you had requested, one has to ask if you know what you are requesting and if your goals are commensurate with the amount of money that you are originally requesting each year from Congress.

Ambassador Motley. I think the general answer to your question is yes, and I think the proof is in the pudding. We finally got on the same wavelength in fiscal year 1984 in a supplemental, in fiscal year 1985, and I think you are beginning to see both in El Salvador and other countries where things are working in that area, Senator.

You have 4 years ago on the first date that you talked about, if either President Reagan or President Carter, to make it nonpartisan, had addressed the heads of state in that area by their title, he would have called four out of five of them general. That is not true any more. We are getting democratization. You do not see headlines that say nuns were killed in El Salvador, because there have not been nuns killed in El Salvador in quite awhile. There has been a dramatic improvement in the whole human rights area.

And so what I am saying is that, having gotten in cycle with each other on the fiscal year 1984 supplemental and the fiscal year 1985, what we would like to see is a continuation on the consistency of it.

[The information referred to follows:]

The relevant figures, on which there is no disagreement with Senator Kerry, are as follows:

FUNDING OF MILITARY ASSISTANCE TO EL SALVADOR FOR FISCAL YEARS 1981 TO 1985

[In millions of dollars]

	Fiscal year—				
	1981	1982	1983	1984	1985
Amount requested by the administration:					
Initial	5.5	26.0	61.3	86.3	132.5
Reprogramming	5.0	.0	60.0	.0	10.0
Supplemental	.0	35.0	50.0	178.7	.0
Total requested	10.5	61.0	171.3	265.0	142.5 m.
Amount approved by the Congress:					
Initial	5.5	26.0	26.3	64.8	128.3
Reprogramming	5.0	.0	30.0	.0	10.0
Supplemental	.0	1.0	25.0	[1] 131.8	.0
Other funding:					
Section 506(a) (drawdown authority)	25.0	55.0	.0	.0	.0
Section 21(d) (deferred payment)				32.0d	m,s
Total provided	35.5	82.0	81.3	196.6	138.3

Includes $32 million under section 21(d) of the Arms Export Control Act.

A great deal of the difference between the initial Administration request and the total eventually provided in some fiscal years stems from the time-lags built into the budgetary process and the need to respond quickly to critical situations. In January 1981 the rebels in El Salvador began their "final offensive", and it was necessary to use Section 506(a) drawdown authority promptly to strengthen El Salvador's capabilities to resist the externally-supported guerrillas and avert possible disaster. Similarly, for FY 82 the initial request, planned far ahead, proved insufficient to make up the equipment losses suffered by the El Salvadoran Air Force in an attack on the airbase in Jan 1982 by a Cuban-trained guerrilla unit, and to provide the security backing necessary to hold the Constituent Assembly elections, an essential step on the road to democracy, Section 504(a) was used again. On both occasions when the Section 506(a) authority was used, it had previously been determined that Congress was not likely to approve a supplemental. In FY 83 Congress allowed less than half of the initial request, and follow-up efforts at reprogramming and obtaining supplemental funds met a similar fate as shown in the above chart.

The initial Administration request for FY 84 was again cut by Congress. During the first portion of FY 84, because of urgent security assistance equipment and training requirements, the President authorized $32 million for the El Salvador security assistance program under Section 21(d) of the Arms Export Control Act. Thereafter the implementation of the National Bipartisan Commission recommendations through approval by Congress of substantial additional sums contained in the FY 84 urgent and omnibus supplementals, and in the FY 85 Continuing Resolution, have brought executive and legislative views toward convergence on security assistance funding for El Salvador.

The seeming discrepancies between requests and final expenditures in the early 1980s can be explained by the need to deal with changing and critical circumstances in El Salvador. The situation is now much improved.

Senator KERRY. If there has been that kind of dramatic increase, why take away whatever incentive some people might believe helped create it and delink certification?

Ambassador MOTLEY. Well, but that is another battle that took place last year, and I think there was a lot of—let me say there were some people in the Congress upset that the President had vetoed a certification requirement in December 1983. And, yet, if you want to go back and look at some of the statistics, and if you will recall the Vice President's visit to El Salvador in January 1984 and the subsequent reshuffling that took place in El Salvador in the movement of military people who were alleged to have been involved in death squad activities, you will find that there was a dramatic decrease, and that was in the face of the veto of a certification.

I think there was a point in time early on in which certification might have worked. I think it outlived its usefulness, certainly through late 1983, early 1984. I think we can get done what we need there without making a certification. The most recent one I saw says if you do not come up green on five points, you lose all the marbles.

Certification to me is not something that, I think, is viable with El Salvador today. I think we can achieve what we want to achieve without it.

Senator KERRY. There was an article I read last week in the Post which suggested that there was a move away from Duarte or some kind of change in that relationship. Do you want to comment on that?

Ambassador MOTLEY. Yes, I will be happy to comment. I am not so sure I would recall the precise language of the article, but I do recall the article.

The fact of the matter is that what the U.S. Government likes to see continue in El Salvador is an election process and a democratic process, and that is continuing. And the fact that we have come to accept that process of elections in El Salvador is that you do not have the tremendous media attention coming up on what is a very important election in the next few days in El Salvador. In other words, democracy has been there; it is working in El Salvador.

Senator KERRY. Again, if you would comment, I notice that the increase in the request for Honduras is about a 40-percent increase in 1 year in military aid. Would you define for us particularly what our military goals are there in the immediate and far future and why we need a 40-percent increase?

Ambassador MOTLEY. Well, I will let Assistant Secretary Sanchez give you the specifics, but let me just tell you from a policy point of view that what we are after is a remodernization and a rejuvenation of what they have. It is not any great increase in it. The focus of what we got prior to fiscal years 1984 and 1985, most of it went to El Salvador more than Honduras, and they, Honduras, as you know, share a long border with Nicaragua which has a formidable military machine a heck of a lot bigger than theirs.

Nestor, would you like to address the particulars?

Mr. SANCHEZ. Yes. Let me just make one statement on your figures that you used before, because you can go back on our requests to the Congress. They were always two or three times more than what we got from the Congress in 1981, 1982, and 1983. And it was not, as Secretary Motley mentioned to you, until the two supplementals of 1984 that we finally got the funds that we had been requesting over the previous years; in other words, the level of funds.

Senator KERRY. Sir, I am afraid I have to disagree with that. The military request in 1981 was $5.5 million. You received $5.5 million as an authorization.

Mr. SANCHEZ. We are talking about 1982 because——

Senator KERRY. In 1982 you had $29 million requested for military; you received $26 million. You asked for $51.2 million in economic, and you received $71.1 million. That sounds like more to me.

Mr. SANCHEZ. In economic it may have been, but not in military. Military has always lagged behind.

Senator **Kerry**. Military was $3 million less.

Mr. **Sanchez**. And after that it even lagged more.

Senator **Kerry**. You ultimately spent $82 million. That is three times as much as you originally requested.

Mr. **Sanchez**. We will provide you with those figures.

Senator **Kerry**. I already have them. You can provide me with figures if you like that differ. I would be happy to see what your figures are and try and match them.

Mr. **Sanchez**. In Honduras, to get to your question on Honduras, we have requested $15 million more this year for Honduras, you are quite right. The MAP funds are primarily to overhaul and help them modernize the military setup there. Part of it is going to be used to overhaul their old Super Mysteres which are just about nonflyable right now and to acquire, the patrol craft that they need and helicopters which have been kind of in the works for some time. Funds will also be used to procure communications equipment, truck and engineering equipment, and ammunition, fuel and spare parts to support their present force.

There is not a big buildup in the force structure planned for the next year, but it is to improve the force structure by getting the equipment they need.

The other part of the program is the IMET Program, and this will provide the professional training for the development of primarily their technical skills for the radar that they are getting and taking over, and also skills to operate and maintain their other equipment.

Senator **Kerry**. Mr. Chairman, I see that my time is up. Let me close with a final thought, which is that if you take what the administration said it needed at the beginning of each fiscal year, the administration's request were slightly more than $1 billion short of what it ultimately said it needed for that region from 1981 until the present. That $1 billion was what was approved by Congress above the original requests of the administration. This demonstrates that there is considerable irony, to say the least, in the 4 years of criticism from the administration that the Congress has not provided what was needed for the region.

Thank you, Mr. Chairman.

Senator **Helms**. I think it may be relevant at this point to go back in time and examine the funding of one side versus the other. I remember a debate in the Senate where I was on the losing side regarding $75 million to the Sandinistas at a time when it was well known to everybody that the Sandinistas were Marxists.

Now, it is passing strange to this Senator that the voices who rise so eloquently in protest of trying to help the freedom fighters did not say a word about that $75 million. I want to know if my figures are correct. From 1979 to 1982, did we provide $1½ billion for the Sandinistas? Is this figure in the ballpark?

Ambassador **Motley**. It was an inordinate amount. Whether it was that, Senator, I will have to doublecheck. I will certainly take your word for it. I do know that we provided more in that period of time to the Sandinista Government than we provided to the rest of Central America. I mean from the United States, point of view.

Senator **Helms** Well, it was $1½ billion——

Ambassador **Motley**. That figure is correct.

Senator HELMS. I think I am correct, too. On top of that, the Eastern bloc countries, according to my recollection, provided $500 million for the Marxist Sandinistas.

Now, I do not remember any heated editorials in the Washington Post or, if you will forgive me, on CBS——[Laughter.]

Senator HELMS [continuing]. About all of this aid to a Marxist regime in our own hemisphere—not a syllable. So I think that with all due respect to my colleagues—and I do respect them—we do need some perspective, and certainly we need to understand what it is that we are trying to do.

Now, I for one stand with the President of the United States in his goal to prevent another entrenched Marxist government in this hemisphere. Now, my request to you, Mr. Motley, is that you get up the figures—and I instruct staff to make sure that it is inserted at this point in the record—so that we can have a clearer picture on who has been helping whom to what extent. I think that may be somewhat helpful to the total perspective.

[The information follows:]

ESTIMATED FOREIGN ASSISTANCE TO NICARAGUA

[Commitments, in millions of dollars]

	1979		1980		1981		1982	
	Economic	Military	Economic	Military	Economic	Military	Economic	Military
United States	16.7	0	37.4	0	59.6	0	6.2	0
Other developed countries	48	NA	73	NA	68	NA	NA	NA
MDB's	104		97		36		16	
Soviet, East Europe, Cuba	20	5	67	5	237	148	327	68
Western Hemisphere	NA	NA	130	NA	225	NA	NA	NA
Other	NA	NA	NA	NA	NA	NA	NA	NA
Iran, Libya, Algeria	NA	NA	NA	NA	NA	NA	NA	NA

Note: Does not include numerous grants of food and medicine from many sources.

Senator HELMS. Mr. Motley, let me move on to what you may consider to be a relatively minor thing. It is important to me in terms of my interest in the general personnel practices of the Foreign Service.

Do you happen to know a career Foreign Service officer by the name of Cynthia Thomas?

Ambassador MOTLEY. Yes, sir.

Senator HELMS. Am I correct that she is a political officer in Barbados?

Ambassador MOTLEY. I believe that is her title. She is stationed in Barbados, that is correct.

Senator HELMS. You may not be prepared to respond to my inquiry here this afternoon, but I would like for you to supply it for the record. My understanding is that Ms. Thomas has applied for reassignment in her present post, and for a long time the ARA could find nobody to propose for it.

Now, I happen to know Ms. Thomas. I have known her for a long time, and I perceive her to be a dedicated career public servant. She has done an excellent job in Barbados in making political and commercial contacts both with the ruling party and the opposition party. As you know, the Prime Minister has just died, and that leaves uncertainty in that country. Yet, my information is that not only has the ARA ignored Ms. Thomas' request to continue in that spot, but they are downgrading the post from FSO-3 to FSO-4 so that a junior officer can be found to fill the post.

If you do not wish to respond at this moment, that is fine, but I do want it for the record. I want to know why this post being downgraded, and at a time when we are seeking competent women for the Foreign Service, why is Ms. Thomas, now an FSO-3, being shunted aside.

Ambassador MOTLEY. Well, let me tell you that I have had the privilege of working with Ms. Thomas on a couple of occasions, trips that I have made to Barbados, and I share your assessment. Rotation from a post happens to outstanding officers also. It is something that is normal in the Foreign Service. As to the downgrading of the post, I do not know about that one specifically, but I do know that we are charged by OPM and I believe the Congress that one of the things they found was that the Foreign Service jobs were higher than needed be. So there is a general program, being resisted by several people, but nevertheless to downgrade generally some of the positions. And that may be the case in this one, but I will get the specifics for you.

Senator HELMS. Very well. I do not think we ought to pursue it in detail here, and I would prefer frankly to have a written report.[1]

Now, Mr. Rivera, I remember last August, I believe it was, when you were here, and I was presiding over your confirmation hearing. It was August, was it not?

Mr. RIVERA. That is right, yes, sir.

Senator HELMS. At that time you and I had a little colloquy concerning the desirability of introducing free market concepts to our Latin American aid program. I think you will recall that my support for your nomination reflected my strong belief in those principles, and my perception was that you share the attitude that I have.

And I understand that one of the initiatives you took shortly after your confirmation addressed basic management principles and standards of evaluation of the aid programs in Latin America. Is that correct?

Mr. RIVERA. Yes, sir.

Senator HELMS. Would you tell me briefly about your efforts in that connection?

Mr. RIVERA. Sure. We have initiated a number of actions. To begin with, we developed a management improvement plan at the Washington level. We also initiated at the mission level what we called a management assessment program to identify those managers or rather it was strengths or weaknesses of the management system. Again, this is apart from the operational aspects. What we wanted to do is to assess a manager, that he or she understand what the functions and responsibilities of a manager are. And we have done that in two missions, and we will continue that program—an indepth, 2-week evaluation of managers as managers.

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[1] Assistant Secretary Motley subsequently sent a letter to Senator Helms regarding Ms. Thomas.

We have also set up control systems—I mentioned this earlier to the Senator—on a computerized system of making sure that we are on top of our projects and the status of the projects, especially the Kissinger Commission recommendations.

We have gotten from the administrator a memorandum or action to in fact the entire agency designating Central America, for example, as a priority. We have increased delegation authority to the mission directors to expedite the implementation process both for contracts and hiring.

As a result of all these things, we are implementing our projects a lot faster. There has been a significant decline in the pipeline.

In terms of my efforts in advocating the private enterprise system, I have taken a very personal interest in our private sector office. We have established some 20 positions throughout the missions. Each mission has a private sector officer. We are sure to include in our policy reform dialog actions calling for specific changes in trade and investment policies locally. And I think we have a pretty good record in that regard.

Senator HELMS. Well, am I off target when I say that my perception is that aid sort of measures success or failure of a given program largely by taking note that the money involved had been delivered?

Mr. SANCHEZ. Well, we would like to go beyond that. Obviously, obligating and disbursing the moneys on time is very important. What we have added to that, obviously, is the accountability to make sure that the projects do what they are supposed to do and that they are effective, and that we can leverage our moneys as much as possible.

We have to do more not only with our money, but hopefully with other people's money. That is why coordinating our efforts with other donors is especially important, and getting the private sector involved in the implementation of our programs rather than dealing with government agencies is extremely important.

Senator HELMS. Does it concern you that many of the countries receiving aid from the United States taxpayers have nationalized banks, nationalized farming, nationalized industries? I ask that question because so many times I have written to, contacted, sat down and had conferences with administration officials—and this is my administration; I am devoted to it—I ask about this, and they say oh, we are making progress.

Well, let us just see about the progress. In El Salvador, for example, are the banks still nationalized?

Mr. SANCHEZ. Yes, sir.

Senator HELMS. The answer is yes.

Mr. SANCHEZ. Yes.

Senator HELMS. Is the Coffee Export Exchange still nationalized?

Mr. SANCHEZ. Yes.

Senator HELMS. What are some other internal obstacles to growth in El Salvador in addition to the farms, the banks, et cetera? Marginal tax rates?

Mr. SANCHEZ. I share your concern, and we have addressed these issues in our policy dialog with the Duarte officials, as we have also done with the private sector in those countries, encouraging them from their end to make some pragmatic recommendations as to how the government can or should divest itself of those businesses. Unfortunately, it is taking us a little longer than we would have hoped.

But on the other side, there have been situations, for example, in Costa Rica where the president recently announced his intentions to divest himself of some, I believe, 18 government-owned businesses. And there have been cases in Jamaica where there are strong efforts to do that.

So it is a mixed bag in terms of results. Our increased aid levels, especially ESF moneys, increasingly call for changes and increased privatization of their industries. That has to be the top of our priority, the free market system. No question about it.

Senator HELMS. I ask the indulgence of my two colleagues. I will be through in just a minute, but I would like to have all of this in one segment.

I have just returned from the White House where we had a conference with some of the leading farm people in this country, and the President, and Mr. Regan and others about our own export difficulties.

Now, I cannot conceive of the justification or let alone the logic of the export tariff that exists in El Salvador. I want somebody to explain how they got around to that insanity that does not do a thing in the world but reduce the price to the farmer and reduce the incentive for the farmer to produce. I imagine that if we tried to apply that kind of thing in this country, Senator Dodd, there would be a posse chasing us, farmers with pitchforks and everything else.

Now, do you want to explain the justification of the export tariff?

Ambassador MOTLEY. Maybe not the justification, Senator, but it might not surprise you to know that it is not just El Salvador that has an export tax.

Senator HELMS. Wherever it exists.

Ambassador MOTLEY. Costa Rica, Honduras. And what is happening is that to a certain degree the market force that you talked about is affecting it, if you want to spend 30 seconds on the banana market. The Costa Ricans and the Hondurans still have an export tax, and they cannot be competitive with Colombia and Ecuador that have figured out that with an export tax you cannot be competitive. At one time Colombia and Ecuador had them. They removed them because the banana market was a little tough.

Senator HELMS. Well, two things and I will relinquish the floor. First of all, I am a free trade-fair trade man, and I do not understand all these machinations to start with. I do not agree with them, and I resent what is being done by our trading partners in Europe and other parts of the world.

The point is that I never hear a word from AID about this sort of thing, and if you have any further comment about it, I wish you would submit it for the record, or if the Senators will indulge you, you can make any comments you want to now.

Mr. RIVERA. We do have that on our policy agenda to bring about changes. Unfortunately, in El Salvador because of the war situation and other pressures for revenue, that is the rationale that they are using. They claim it is an emergency measure and that it is a revenue earner.

Now, I am not agreeing with that, Senator, but that is the rationale that they give.

[The information referred to follows:]

AID SUPPORT FOR FREE TRADE IN LATIN AMERICA

AID strongly supports elimination of obstacles to free trade by Latin American (LAC) governments. In our policy dialogue with LAC governments, we have emphasized the importance of moving from import-substitution to export-led growth as a vehicle for self-sustaining growth. Often, this involves encouraging reductions in restrictions on imports, particularly licensing and complicated administrative approval processes, or in reductions of import tariff levels. Costa Rica is now moving to cut import tariffs to asure greater efficiency in domestic production and to reduce costs for potential exporters.

In cases where export taxes are an impediment to increased production, AID has encouraged governments to reduce or eliminate them. In El Salvador, for example, we are encouraging the government to move the exchange rate to a market-determined level. The current overvalued rate acts as a subsidy for imports and an implicit tax on exports. It is important to eliminate this distortion, and the Govenment of El Salvador has steadily been moving toward a unified, realistic rate. We are also encouraging El Salvador and the other members of the Central American Common Market to reduce import taxes in order to encourage efficiency.

Another recent success took place in Haiti where we were instrumental in convincing the government to cut the coffee export tax by 25 percent and to agree to gradually reduce it further. The tax reduction is expected to significantly increase the profitability of coffee production to farmers and to increase production.

Senator **HELMS**. Well, that is sort of like finding a forest fire and saying hand me that bucket of gasoline; I want to put out that fire.

Senator Dodd.

Senator **DODD**. Thank you, Mr. Chairman.

I would merely point out that even without export tariffs, we get chased with pitchforks around here from time to time. And, in fact, I am a cosigner, I believe, with you on a letter, regarding the multifiber arrangement.

Let me come back if I can, Mr. Secretary, to where I was before. Too often in this debate about the contras and so forth there is an assumption that those who disagree with administration policy have a different objective or goal. I do not know of anyone—now, there may be some, but certainly not on this committee—who differs with the administration on what we would all like to see achieved.

I think where we have our legitimate disagreements is which policy options are most likely to achieve the very results we claim we would like. And too often—and I have said this in the past—the debate seems to center around whether one group or the other is wearing the white hats. And you will have some, such as the President, who suggest that the contras are Jeffersonian Democrats, and others that would tell you that Mr. Ortega is St. Francis of Assisi. I do not think either is correct, and I wish we might begin to focus on what is in the best interest of the United States rather than which side you are on in terms of these particular groups.

We announced some time back that we were supporting the contra operation because it was going to interdict arms supplies from the Sandinista government to El Salvador. That was the stated goal of the administration when it announced its support for the contra operation.

Can you tell this committee to the extent that you can in an open session whether or not, one, that objective has in any way been served; and two, would you disagree with me when I express to you the feeling that I have and others have that the Contras ab initio never intended to really focus their attention on arms interdiction, but were really intending to overthrow the Sandinista government?

Ambassador MOTLEY. Well, Senator I think that just as a basis to be sure that you and I are reading off the same sheet of music, I would refer you to the different findings and communications between the administration and the Intelligence Committee going back over that period of time in which we were active on it as to what were the goals and the requirements under the findings.

I would agree with your assessment earlier that I think we have the same basic objectives. We may differ on how to approach them. But more specifically to the freedom fighters—and I am running the risk of repeating myself of what I said to Senator Murkowski—but I agree with your assessment that what is in the best interest of the United States in our national security should be the driving force, and it is based upon that premise that the President's support for the funding of the freedom fighters comes.

Senator DODD. Well, the contras are not necessarily concerned about what is in the best interest of the United States, are they? They have their own agenda, do they not?

Ambassador MOTLEY. That is true. I would say that being independent Nicaraguans, not people shanghaied off the street of Chicago or Miami, able to go forward without any official—and by that I mean governmental—U.S. support, yes, I think they are entitled to what they are after and not after.

But it goes back to the issue—and see, if we are going to concentrate on what is in the best interest of the United States, then what may or may not be in the minds of one or more of the 15,000 is a side bar issue, is it not? I mean the issue is do they perform a function within all of the pressures that we can bring to bear to modify the behavior for the four points that we wanted and within the parameters that I have laid out. That is the issue—I agree with you—that it is the best interest of the United States. And I think that what is in the minds or not in the minds of different ones is a side bar issue.

Senator DODD. Well, do you believe or does the administration hold to the view that the contras are merely trying to modify Sandinista behavior or are they trying to overthrow the Nicaraguan Government?

Ambassador MOTLEY. The activity of the freedom fighters—there is no doubt in my mind about this, and I think if you talk to the Sandinistas, they will spend the first couple of minutes telling you that they are not going to bother them, and they are going to wrap them up very shortly, and they spend the next 2 hours telling you about—and it is always front end on their part—that they are a source of irritation, a source of pressure to the Sandinista government. I do not think there is any argument about that.

As such, they provide a pressure, along with diplomatic initiatives. It might interest you to know that since April 1 of last year through December of last year, Ambassador Shlaudeman, my colleague who handles a lot of that work with the Contadora group, has had 120 meetings with just heads of states and foreign ministers of the nine Contadora countries. So I see it as one of several tools with which you bring pressures in order to modify behavior. That is the way we look at it.

Senator DODD. Can you tell me the name of one Contadora country that supports the Contras?

Ambassador MOTLEY. Well, yes, I can tell you quite a few of them. Now, whether they are going to say it to you on the record or not I do not know. But that is not an unusual event. I hear a lot of things in different offices. You have heard things in my offices that you might not hear on the record. But yes, the answer to your question is yes.

Senator DODD. Which of the Contadora countries support the Contra effort?

Ambassador MOTLEY. Well, Senator, you wander around as much as I do. I think you can respect their confidences.

Senator DODD. I do not know of one that does.

Ambassador MOTLEY. Included in the Contadora countries are—if you mean the nine, I can find out—I mean I can name those, or you mean just the four of the Contadora?

Senator DODD. The original Contadora group, our major allies in the region.

Ambassador MOTLEY. My conversations with the heads of states and the foreign ministers there is that they feel that it provides a useful function. There are those that do not, I would agree. But you asked me the question can I name any that do, and I said yes, I can.

Senator DODD. Can you tell us something about the military command structure of the contras? Specifically I am talking about the current leadership of that operation. The administration has suggested that these leaders, while some of them have backgrounds within the National Guard of Nicaragua during the Somoza regime, that they do not make up the majority.

I am talking now about the top commanders of this operation. Is it not true that the overwhelming majority of these individuals have extensive backgrounds in the national guard under the Somoza regime in Nicaragua?

Ambassador MOTLEY. I have here a list of some 14 Nicaraguan opposition leaders, many of which are involved directly with the freedom fighters.

Senator DODD. I am talking about the military command.

Ambassador MOTLEY. OK. You are talking about the military.

Senator DODD. How about the military?

Ambassador MOTLEY. I cannot give you a table of organization and equipment on the military, but I would be happy to provide it for you. I am sure that somewhere in the U.S. Government we have it.

Senator DODD. Well, certainly you must have some sense, because if that——

Ambassador MOTLEY. Yes. I will tell you what I have a sense of. I have a sense of those that go, like Adolfo Calero, and join up with the nonarmed and make the request let us enter into a dialog with the Sandinistas and get rebuffed.

Senator **Dodd**. Wait a minute. I am asking you if you can tell me something about the background of the military command structure of the Contra operation.

Ambassador **Motley**. I will be happy to supply that for you. I cannot tell it to you off the top of my head.

Attached is information concerning the leadership of the democractic opposition to be inserted into the record.

[The information referred to follows:]

RESOURCE PAPER

GROUPS OF THE NICARAGUAN DEMOCRATIC RESISTANCE:

WHO ARE THEY?

APRIL 1985

The Department of State has prepared this resource paper on the Nicaraguan democratic opposition in response to requests from members of Congress, the press, and concerned citizens. Its purpose is to provide brief information on the principal opposition groups and their top leaders.

GROUPS OF THE NICARAGUAN DEMOCRATIC RESISTANCE:

WHO ARE THEY?

The Sandinista government of Nicaragua came to power in 1979, promising respect for pluralism and human rights, a non-aligned foreign policy, and a mixed economy. The communist leaders of the Sandinista National Liberation Front (FSLN) have consistently failed to honor these pledges made to the Organization of American States and the Nicaraguan people. They systematically pushed aside the democratic members of the broad-based coalition that overthrew Somoza. They have shipped arms, ammunition, and other supplies to the Salvadoran guerrillas and operated guerrilla bases for training Salvadorans, Hondurans, and others in guerrilla warfare, sabotage, and terrorism. The Sandinistas cooperate with the Soviet Union and Cuba in carrying out their expansionist policies in Central America. (See the joint Department of State/Department of Defense paper The Soviet-Cuban Connection in Central America and the Caribbean, March 1985.)

Between 1979 and 1981, the United States authorized $118 million in economic assistance and sought friendly relations with the Nicaraguan government, at the same time through quiet diplomacy expressing concern about the Sandinistas' aggressive acts against Nicaragua's neighbors. It became clear to democratic Nicaraguan groups that the Sandinistas would not alter their behavior unless pressured from within and without.

As a result of Sandinista repression and growing ties to communist countries, opposition developed, made up in part of persons who had been Sandinista supporters, even some who had been members of the post-revolutionary government, such as Alfonso Robelo, Arturo Cruz, Alfredo Cesar, and Eden Pastora, the legendary "Commander Zero." The Sandinistas' opponents are indigenous Nicaraguans fighting for their cause. They are, as President Reagan said on February 11, "the people of Nicaragua who have been betrayed in the revolution that they themselves supported."

There is, however, an obvious congruence between United States objectives and those of many of the anti-Sandinistas. United States objectives are clear:

--the reduction of Nicaragua's greatly expanded military apparatus to restore military equilibrium among the Central American nations;

--the removal of Soviet and Cuban military personnel and termination of their military and security involvement in Nicaragua;

--the termination of Nicaraguan support for subversion in neighboring countries; and

--the implementation of the Sandinistas' commitments to the OAS.

The Sandinistas are waging an intensive propaganda campaign to paint the opposition as henchmen of the former dictator Anastasio Somoza. But the facts show that nearly all of the opposition leaders opposed Somoza. This campaign, focused primarily on the Fuerza Democratica Nicaraguense (Nicaraguan Democratic Force, or FDN) which has a number of former National Guard officers in its membership, tries to equate former service in the National Guard with being a Somocista. But even if that questionable assumption were accepted, the number of former guardsmen in the FDN is relatively small. FDN records indicate that less than 2% of its members were guardsmen as compared to about 20% who are former Sandinistas.

Several groups of the armed and unarmed opposition met in San Jose, Costa Rica, and formed a coalition called the Niçaraguan Resistance. On March 2, 1985, they issued a document calling for a national dialogue with the Sandinistas under the sponsorship of the Nicaraguan Bishops' Conference. In addition to the dialogue, they called for:

--a cease-fire in place;

--lifting of the state of emergency;

--amnesty for political prisoners (approximately 3,500);

--granting the rights of habeus corpus and asylum;

--a guarantee of protection for participants in the dialogue.

The National Resistance offered to recognize Daniel Ortega as President pending a plebiscite. They called for the presence of guarantors from other Central American countries to oversee the proposed dialogue and invited other interested nations and groups to send observers. The opposition seeks only the right to participate in a free and open election and does not demand in advance, as do the Salvadoran leftist guerrillas, a place in the government.

Within the recently formed Nicaraguan Resistance are the Fuerza Democratica Nicaraguense (Nicaraguan Democratic Force, or FDN), the Alianza Revolucionaria Democratica (Democratic Revolutionary Alliance, or ARDE), and MISURA (Miskito, Sumo, and Rama), as well as smaller or lesser known groups. MISURASATA (Sumo, Rama, and Sandinista Unity), the Frente Revolucionario Sandino (Sandino Revolutionary Front, or FRS), and others, although not signatories of the San Jose document, are also fighting to force the Sandinistas to return to the original goals of the anti-Somoza revolution.

The following descriptions of the principal opposition groups and their top leadership should help to counterbalance the misinformation being spread about them. Included are brief biographies of all the members of the FDN Directorate and the principal leaders of the other opposition groups.

GROUPS OF THE DEMOCRATIC OPPOSITION

The Nicaraguan Resistance

The Nicaraguan Democratic Force, or Fuerza Democratica Nicaraguense (FDN)

The FDN, the largest of the armed opposition organizations, was founded in 1982. Although originally composed primarily of former guardsmen, as a focal point for armed resistance to the Sandinistas it quickly attracted many others who had become disaffected with the FSLN (Frente Sandinista de Liberacion Nacional). The influx of members led to a transformation of the FDN into a broadly based organization drawn from all sectors of Nicaraguan society.

The FDN's policy-making Directorate, reorganized in 1983, is composed of six persons. Five are civilians who were long-time opponents of Somoza; the other member is a former National Guard colonel, Enrique Bermudez, who heads the military general staff. The Directorate is responsible for making and carrying out all FDN policy.

The FDN reports that in 1982 a number of former Somoza National Guardsmen with records of human rights violations were expelled. Since that time, three FDN military leaders who had committed gross human rights violations were tried, found guilty, and executed under the leadership of the Directorate. A written policy requiring respect for human rights and good conduct is stressed constantly during the training and operations of the FDN soldiers.

The executive committee of the FDN directorate responsible for military affairs is the Civil-Military Command (CMC). The CMC's three members are civilians Adolfo Calero and Indalecio Rodriguez, both Somoza opponents, and Colonel Enrique Bermudez. The FDN's Civil-Military Command controls all finances. Reporting to the CMC are the secretariat, finance officer, logistics center, communications center, strategic command, and the medical center.

As noted above, the military general staff of the FDN is headed by Enrique Bermudez. In addition, several other former National Guard officers serve in key staff positions. However, the FDN reports that its overall military leadership, including the general staff and regional and task force commanders, has a greater number of former Sandinistas than National Guardsmen. The composition of the FDN military leadership is as follows:

Former Sandinistas	43%
Former National Guardsmen	32%
Campesinos (small farmers)	19%
Other	6%

Of the 56 regional and task force commanders in the FDN responsible for day-to-day operations, the FDN reports that 27 were former Sandinistas; 13 were National Guardsmen, none above the rank of lieutenant; and 12 were farmers. The remainder include a medical doctor, an evangelical minister, a fourth-year university student, and a civilian radio technician. The overwhelming number of the reported 15,000 FDN troops are peasants, workers, shopkeepers, businessmen, and others with no previous ties to Somoza.

The Democratic Revolutionary Alliance, or Alianza Revolucionaria Democratica (ARDE)

The Costa Rica-based ARDE is a coalition of organizations created in 1982 by individuals who were active during the revolution, including many who were initially officials in the Sandinista government. From its beginning, its leaders sought to restore the original course of the revolution through political means. In the spring of 1983, after peaceful efforts had proved futile, ARDE began military operations in southern Nicaragua. There have been internal disagreements among various ARDE leaders. In 1984, Eden Pastora, leader of the military arm, was expelled by other members of the ARDE coalition. There continues to be a dispute over which faction can legitimately claim the ARDE name, with both sides doing so. Pastora has retained the loyalty of most ARDE troops and continues military operations in southern Nicaragua. The political head of ARDE, Alfonso Robelo, was a principal organizer of the Nicaraguan Resistance.

Current groups in the Robelo-led ARDE coalition are:

Nicaraguan Democratic Movement, or Movimiento Democratico Nicaraguense (MDN)

The MDN is a social-democratic party founded in 1978. It drew its support from lower and middle class Nicaraguans, including many peasants, and it played an active role in the revolution which overthrew Somoza. Its leader, Alfonso Robelo, was an original member of the ruling revolutionary junta. He resigned in protest over Sandinista efforts to create a communist state. Subjected to extraordinary harassment by the Sandinistas, Robelo went into exile in Costa Rica in 1982.

Nicaraguan Democratic Unity/Nicaraguan Revolutionary Armed Force, or Unidad Democratica Nicaraguense/Fuerza Armada Revolucionaria Nicaraguense (UDN/FARN)

UDN/FARN is a political/military organization founded by veteran anti-Somoza fighter Fernando "El Negro" Chamorro. UDN/FARN was one of the original founders of ARDE, but pulled out in 1983 in a policy dispute. In the spring of 1984 those differences were overcome and UDN/FARN rejoined the coalition. Chamorro was a signer of the Nicaraguan Resistance document.

MISURA

MISURA is an armed group that evolved out of an Atlantic Coast Indian organization ALPROMISO, founded in 1973 with the help of Protestant churches in that region, and its successor group MISURASATA. Former supporters of the Sandinista revolution, Miskito Indians Wycliffe Diego and Steadman Fagoth, founded MISURA in 1983. Its military operations are carried out in northeastern Nicaragua.

Nicaraguan Democratic Solidarity, or Solidaridad de Trabajadores Democraticos Nicaraguense (STDN)

STDN was founded in 1983 by two Nicaraguan labor leaders who had been forced into exile as a result of Sandinista persecution of the independent labor movement in Nicaragua. The founders had long been opponents of Somoza; one of them, Zacarias Hernandez, was a signer of the Nicaraguan Resistance document.

INDEPENDENT RESISTANCE ORGANIZATIONS

Sandino Revolutionary Front, or Frente Revolucionario Sandino (FRS)

The FRS was created in 1982 by disillusioned Sandinista militants, many of whom had fought on the southern front against Somoza in 1979. The FRS was a founding member of ARDE, but later its ties were severed. Its leader, Eden Pastora, has steadfastly refused to align himself or his organization with any former National Guardsmen. Most of ARDE's combat troops remain loyal to Pastora. In September 1984 the FRS entered into a new understanding with ARDE. However, Pastora has not signed the Nicaraguan Resistance document.

Miskito, Sumo, Rama, and Sandinista Unity, or MISURASATA

MISURASATA evolved out of the Atlantic Coast Indian organization ALPROMISO. Following the fall of Somoza, ALPROMISO was renamed MISURASATA. By the end of 1981, Sandinista persecution and the forced relocation of many Indian communities prompted the beginning of a large-scale exodus of Miskito Indians from Nicaragua, primarily to Honduras. The Nicaraguan government officially ordered MISURASATA disbanded, but members formed a fighting force to resist. It conducts military operations in southeastern and eastern Nicaragua. Divisions within the organization led to a split in 1982. Brooklyn Rivera heads the faction that retains the MISURASATA name. MISURASATA pulled out of ARDE in mid-1984 and was not a signer of the Nicaraguan Resistance document.

BIOGRAPHIC SKETCHES

Arturo CRUZ Porras

Mr. Cruz was a long-time member of the Democratic Conservative Party. He is an economist who holds graduate and undergraduate degrees from Georgetown University.

He was twice jailed by Somoza, once for 11 months and later for 3 months. In 1977, Cruz was chosen by the Sandinistas to be one of "The Group of 12" prominent Nicaraguans who would serve as a bridge between the Sandinistas and other groups in the civil opposition to Somoza. Following the revolution, Mr. Cruz served as president of the Central Bank in 1979-80, as a member of the Sandinista junta from May 1980 to March 1981, and as Nicaragua's ambassador to the United States from June to December 1981. He resigned that post in protest over the growing Marxist-Leninist totalitarian tendencies of the Sandinistas.

Mr. Cruz was the presidential candidate of the unified opposition in the election in November 1984. He refused to register his candidacy in protest over the ruling Sandinista government's refusal to permit a fair electoral contest, and the harassment by Sandinista controlled mobs of Mr. Cruz and other opposition candidates.

Alfredo CESAR Aguirre

Mr. Cesar holds a B.S. degree in industrial relations from the University of Texas and an M.B.A. from Stanford University. After serving as general administrator of the Nicaraguan Sugar Estates, he joined the Sandinistas in 1978 in the struggle to overthrow Somoza. He reported that he was tortured while imprisoned during that time. After the Sandinista victory in 1979, Cesar became Executive Director of the International Reconstruction Fund. In 1980-81 he was Executive Director of the Banking Superior Council. In 1981-82 he was President of the Central Bank. After breaking with the Sandinistas and leaving Nicaragua, Cesar went into exile in Costa Rica and became an adviser to the Costa Rican government, specializing in external debt .

THE DIRECTORATE OF THE FDN

Adolfo CALERO Portocarrero

A lifelong opponent of Somoza, Mr. Calero has been president of the National Directorate and Commander-in-Chief of the armed forces of the FDN since December 1983.

Mr. Calero graduated from the University of Notre Dame in 1953, did graduate work in industrial management at the University of Syracuse, and holds a law degree from the University of Central America in Nicaragua.

In the late 1950s, Mr. Calero became manager of the Coca-Cola Company of Nicaragua. He served as director of the Chamber of Commerce and was a member of Nicaragua's development organizations, INDE and FUNDE. He was a co-founder of the Human Development Institute. In the early 1970s he was dean of the faculty of economics and business administration at the University of Central America.

Mr. Calero began his political career in the 1950s. He became an activist in the Conservative Party and in 1959 he helped organize managerial strikes in support of an insurrection headed by Pedro Joaquin Chamorro, editor of the opposition daily La Prensa.

In 1970 Mr. Calero, offered a seat as an alternate in Congress as part of a pact between Fernando Aguero, head of the Conservative Party, and Somoza, refused. Mr. Calero joined with other conservatives and founded the Authentic Conservative Party.

In 1973, Mr. Calero served as his party's representative in the Broad Opposition Front (FAO), and along with other FAO leaders was jailed for initiating a general strike that shook the Somoza regime.

After the fall of Somoza, Mr. Calero attempted to cooperate with the Sandinistas in rebuilding Nicaragua, but by the end of 1982, having become totally disillusioned, he went into exile.

Enrique BERMUDEZ Varela

Mr. Bermudez is the military commander of the FDN armed forces. He served in the National Guard under Somoza, but was cleared of "war crimes" by a representative of the Sandinista military in December 1982. He has described himself as a professional soldier and, under Somoza, apolitical. He is a graduate of the Nicaraguan Military Academy and received training at the U.S. Army Command and General Staff College and the U.S. Army School of the Americas. He also received military training in Brazil.

During the closing years of the Somoza regime when the most intense violence occurred, Bermudez served in Washington as defense attache.

Alfonso CALLEJAS Deshon

Mr. Callejas was trained as a civil engineer at the University of Santa Clara in California. After working for several years for the Standard Fruit Company, he founded his own business and eventually had interests in cattle, bananas, and cotton. He held various local and national offices in his capacity as an engineer and headed the National Office of Water Resources in the early 1960s. He served as Minister of Public Works and later was named Vice President of the republic under Somoza. He then became disenchanted with the Somoza regime, and in 1972 resigned his position in protest over Somoza's efforts to maintain himself in power. While still a member of Somoza's National Liberal Party (PLN), he led a group of dissidents who sought to restore genuine liberal values to the party. In 1973 he organized a grassroots PLN movement designed to force Somoza to resign. He spent the last months of the Somoza regime in exile in Honduras. Callejas returned to Nicaragua after the revolution only to have his properties confiscated by the Sandinistas. Again he went into exile and joined the FDN.

Indalecio RODRIGUEZ Alaniz

Dr. Rodriguez is a doctor of veterinary medicine who served as a professor and president of the University of Central America. The son of a prominent anti-Somoza figure, he became politically active at an early age. He participated in the anti-Somoza youth movement and became involved in the Independent Liberal Party (PLI). He was jailed twice in the 1950s for his anti-Somoza activities. After spending several years abroad, he returned to Nicaragua to accept a position at the University of Central America where he remained during the revolution. In 1981 he abandoned his university post to go into exile and take up the struggle against the Sandinistas.

Lucia Cardenal Viuda de SALAZAR

Mrs. Cardenal Viuda de Salazar is the widow of a prominent Nicaraguan businessman, Jorge Salazar Arguello, who was murdered by the Sandinista security forces in November 1980. She was educated in Catholic schools in Nicaragua and the United States. During the revolution the Salazars collaborated with the Sandinistas and harbored Sandinista militants who were being sought by Somoza's forces. Her late husband, a top official of the private sector organization COSEP, played a key role in the civic opposition to Sandinista policies in 1980. A progressive leader whose popularity was rising, he was shot by Sandinista State Security police for allegedly participating in a conspiracy. After his murder Mrs. Salazar fled Nicaragua and joined the FDN.

Marco A. ZELEDON

Mr. Zeledon was a prominent businessman who served as president of the Nicaraguan Chamber of Industry, as a member of the board of governors of the Central American Institute of Food Marketing, and on the Financial Committee of FUNDE. As a businessman he promoted the constructive interaction in the decision-making process of the private sector, the government, labor unions, and community organizations. He became increasingly active in anti-Somoza activities during the 1970s and participated in the private sector initiative to persuade Somoza to implement policies which would result in a more equitable distribution of wealth. Following the revolution, Zeledon went into exile after his cereal business was confiscated by the Sandinistas.

ARDE LEADERS

Alfonso ROBELO Callejas

Mr. Robelo, political coordinator of ARDE and head of the MDN, was trained as a chemical engineer. He served as director of the University of Central America from 1970 to 1972 and was president of the Nicaraguan Chamber of Commerce until 1975. He then headed the development institute INDE. Following the assassination of La Prensa editor Pedro Chamorro, Robelo founded the Nicaraguan Democratic Movement (MDN), a political party of businessmen, industrialists, and professionals opposed to the Somoza regime. After the revolution Robelo was one of the original five members of the junta. He resigned in 1980 over the communist tendencies in the FSLN-dominated government. He complained also about the ever-growing Cuban influence in the new government. Harassed by the FSLN after his resignation, he was finally forced into exile in 1982, at which time he and Eden Pastora founded ARDE.

Fernando "El Negro" CHAMORRO Rappaccioli

Mr. Chamorro, leader of UDN/FARN and commander of ARDE's military forces, has been a prominent anti-Somoza figure since the 1940s. He participated in numerous military actions against the dictator and was repeatedly jailed or exiled by Somoza. During the revolution he executed a spectacular rocket attack on Somoza's Managua bunker from the nearby Intercontinental Hotel. In 1979 he fought on the southern front with the Sandinistas. The increasingly communist nature of the regime, and the absence of an effort to implement the democratic goals of the revolution, drove Chamorro into exile in 1982 at which time he joined in the founding of ARDE. When Pastora was expelled as a result of policy disputes within that organization, Chamorro became the military leader .

SOME OTHER OPPOSITION LEADERS

Eden PASTORA Gomez

Mr. Pastora, the legendary Commander Zero and leader of the FRS (Sandino Revolutionary Front), was the Sandinista's most popular hero and a senior official of their government until he broke with them in 1982 and took up arms against his former colleagues. Pastora fought for years against Somoza; in August 1978 he led the unit that captured the National Palace in Managua. That operation gained the release of 59 political prisoners, but its lasting significance was that it captured the imagination of the Nicaraguan people and enabled the Sandinistas to become the symbol of resistance to Somoza. After serving first as Vice Minister of Interior and then as Vice Minister of Defense, Pastora became disgruntled by the radical policies implemented by the Sandinistas, and was particularly distressed by the presence in Nicaragua of thousands of Cubans. In April 1982 he denounced the Sandinista regime and went into exile to found the FRS. That same year he was a co-founder of ARDE. In April 1983 he took up arms against the Sandinistas in southern Nicaragua. After being expelled from ARDE in the spring of 1984, he later reached an understanding in which he and Robelo agreed to consult with one another.

Donald CASTILLO

Mr. Castillo was a labor leader and held important posts in the Social Christian labor confederation, the Nicaraguan Workers Central (CTN). A long-time opponent of Somoza, he supported the FSLN during the revolution. He became the CTN delegate to the quasi-legislative Council of State following the victory in 1979. He served as coordinator of a civic opposition group which held discussions with the FSLN in an unsuccessful effort to resolve national problems. Castillo subsequently went into exile and became a co-founder of STDN. He broke with that group, however, over the unity issue and joined Pastora's FRS.

Jose DAVILA Membreno

Mr. Davila studied economics at the National Autonomous University and went on to advanced studies in economics and development in West Germany. Active in student politics, he later became a leader of the Social Christian Party, one of the principal groups opposed to Somoza. Following the revolution, Davila was a delegate to the Council of State. In 1982 he went into exile and founded an anti-Sandinista group called ANUDE. Davila later left ANUDE and has joined Pastora's FRS.

Roberto FERREY

Mr. Ferrey, Secretary General of the FSDC (Christian Democratic Solidarity Front), studied law at the Autonomous University of Nicaragua and did graduate work at Southern Methodist University in Texas. He was a founder of the Youth Christian Democratic Front which was opposed to Somoza. In his law practice he specialized in labor cases and frequently represented unions affiliated with Christian-Democratic Latin American Workers Central (CLAT). Because of his involvement in strike actions, he was jailed several times by the Somoza regime. He became an important figure in the Social Christian Party. He went into exile in 1976 and from there continued to participate in the fight against Somoza. After the revolution he returned to Nicaragua and became a legal adviser to the Ministry of Justice. In July 1983 he resigned and went into exile in Costa Rica where he joined the FSDC.

NICARAGUAN INDIAN LEADERS

Brooklyn RIVERA Bryan

Mr. Rivera is a Miskito Indian from the Nicaraguan Atlantic Coast. He initially supported the revolution against Somoza and was a founding member of MISURASATA when it was created under Sandinista auspices in 1979. In February 1981 Rivera and other Indian leaders were arrested by the Sandinistas and accused of "counter-revolutionary activities." He was released from jail after a short time and continued to protest Sandinista efforts to nationalize Indian lands and to relocate the Indian population. He resisted efforts to force the "cultural assimilation" of the various Indian groups by the Sandinistas. He was driven into exile and has carried on the fight against the Sandinistas. He is involved in an effort to negotiate an agreement with the Sandinista government over the future of Nicaragua's Indian population. He states he did not sign the Nicaraguan Resistance document because he did not wish to jeopardize that negotiating process.

Wycliffe DIEGO

Mr. Diego is a Miskito Indian leader from the Atlantic Coast town of Puerto Cabezas. He was a Moravian pastor and an active member of ALPROMISO. He was jailed by Somoza in 1971 for allegedly being a communist. When MISURASATA was formed in 1979, Diego served as a member of its executive board. Reacting to the Sandinista treatment of Nicaragua's indigenous population, Diego went into exile and helped found MISURA. He was wounded in a Sandinista-engineered 1982 assassination attempt.

Steadman FAGOTH Muller

Mr. Fagoth, a Miskito Indian leader, was a long-time opponent of Somoza. While a student at the National Autonomous University he was twice arrested for his political activities. Following the revolution he became a leader of MISURASATA and was that organization's first representative in the National Reconstruction Government's Council of State. Fagoth's increasingly outspoken criticism of the Sandinista treatment of his people led to his arrest in February 1981 for "counter-revolutionary activity." In May he was released on condition that he accept a long-term scholarship in a Soviet-bloc country. He fled to Honduras, however, where he joined other MISURASATA members in the fight against the Sandinistas. Fagoth, wounded in the same 1982 assassination attempt that injured Diego, later joined MISURA.

A BRIEF LISTING OF SOME OF THE GROWING NUMBER OF FORMER SUPPORTERS OF THE SANDINISTAS NOW IN THE OPPOSITION RANKS

Jose CARDENAL--former Vice President of the Council of State.

Edgard MACIAS--anti-Somoza militant, head of the Popular Social Christian Party and former Vice Minister of Labor.

Pedro Joaquin CHAMORRO Jr.--son of the late La Prensa editor, and himself editor of that much censored opposition daily until his recent flight into exile in Costa Rica. He was a signer of the Nicaraguan Resistance document.

Jaime MONTEALEGRE--former Vice President of the Council of State.

Carlos CORONEL Kautz--former Minister of the Institute of Fisheries and a long-time Somoza opponent. Coronel signed the Nicaraguan Resistance document.

Miguel BOLANOS Hunter--former official of the Sandinista State Security Police.

Haraldo MONTEALEGRE--former Sandinista alternate governor of the World Bank.

Alvaro TABOADA--former Sandinista ambassador to Ecuador.

Francisco FIALLOS--former Sandinista ambassador to the United States.

Agustin ALFARO--former Sandinista consul general in New Orleans.

Senator Dodd. Well, what about Mr. Bermudez? Can you tell us about him?

Ambassador Motley. Yes. I think Mr. Bermudez was, as I recall, was a lieutenant colonel under—or a full colonel under the Somoza regime. He spent a lot of time overseas. If you know anything about the way of military institutions in Latin America, you find that many times they are sent outside of their country as attaches and at different places when it is convenient to them not to have them in the country. So that he served in Somoza's army, yes, but so did a lot of people that are in the FSLN now, too.

I think that is a side bar issue. I mean I thought you and I agreed that what was in the interest of the United States is what we are talking about, not whether these guys are good guys or bad guys. You brought it up, and now we are going through a litmus test of all these guys.

Senator Dodd. I will tell you the relevance of it, Tony. The relevance is that we are calling these people freedom fighters akin to our Founding Fathers, and I do not think the background of the national guard in Nicaragua where most of these military commanders come from—I know that; you may not yet—I do not think they quite add up to Madison, Jefferson, Hay, Hancock, and Washington. And I think the suggestion by the President and others that they do is absolutely the worst hyperbole I have ever heard.

Ambassador Motley. Well, you are entitled to your opinion, but you also did not want——

Senator Dodd. Well, I think that is relevant.

Ambassador Motley. No, no. You wanted to talk about just the military leaders. You did not want to talk about Calero, Gallejas, Rodriguez, Fargoth, Robelo and, you know, the other lineup.

Senator Dodd. We are supporting the military leaders. I think it is relevant. Why does Eden Pastora refuse to join these people?

Ambassador Motley. Eden Pastora is a charismatic leader that, like Robelo was then, and Arturo Cruz, were part of the initial group that went into Nicaragua.

Now, Eden Pastora has had difficulties, first getting along with Robelo, then with some of the others. I think that anybody that would describe and has met with Eden Pastora will find that to a certain degree he is a loner. That was his success as a——

Senator Dodd. Is that his reason for not joining the FDN?

Ambassador Motley. I do not know. I think you would have to ask him what his reason is.

Senator Dodd. Well, has he not been asked that? Have we not solicited his support for the FDN?

Ambassador Motley. It has been my impression in dealing with Eden Pastora over the years that it is either you do it my way or I pick up my ball and go home. And the rest of these guys have found some common ground, including many who are not Somocistas.

Senator Dodd. What have been his stated views to the administration when we have requested his support for the FDN? Why has he refused?

Ambassador Motley. I am sorry. I missed the first part of the question.

Senator **Dodd**. We have solicited his support, have we not, to join the FDN?

Ambassador **Motley**. In the past, prior to the passing of the continuing resolution, we have talked with Pastora about the necessity to get together.

Senator **Dodd**. And he has refused, is that not correct?

Ambassador **Motley**. Well, at first he refused to get together with them until they made some changes. They made some changes. Then he got in a fight with his buddy Robelo.

Senator **Dodd**. Well, he has refused. What are his reasons for refusing to join the FDN?

Ambassador **Motley**. His original reason for not joining the FND, in his view, was that there were too many anti-Somocistas. But I tell you that, when he split with Robelo, I do not think he could make that kind of comment.

Senator **Dodd**. Mr. Chairman, my time is——

Senator **Helms**. Why not finish your train of thought? I ran over.

Senator **Dodd**. I am not sure Tony wants me to finish.

Ambassador **Motley**. That is right. [Laughter.]

Senator **Helms**. I just want to know if you fellows had any words before you fell out. [Laughter.]

Senator **Dodd**. We get along so well, too. [Laughter.]

There was a news report and story that caught my eye back about a month ago involving the interdiction of a flight, presumably on its way to El Salvador, from John Wayne Airport in California, with a stop in Texas where the Immigration Service of this country stopped it and discovered about $6 million in small bills. They arrested a man by the name of Francisco Guirola Beche. It was the largest single currency seizure in Texas history.

What can you tell us about that? Who is Mr. Guirola? What was the money for? Any drugs connected with this at all?

Ambassador **Motley**. OK. And I am going off the top of my head on something that happened 2 or 3 months ago.

Senator **Dodd**. A month ago.

Ambassador **Motley**. Or a month ago, whatever. Some of these days get long.

As I recall, he was—aside from the fact that he was in possession of an inordinate amount of cash in small bills, and there is a suspicion that it was drug-related, it was not declared. That aircraft had also filed on a similar plan, stopped in Central America and not declared it when it came back into Miami on previous occasions. That is what tipped them off to it.

One of the individuals, I think it was this gentleman, was in possession of two or three passports, including a Costa Rican diplomatic passport. He said well, if you do not like this one, try this one. And the case now is in the hands of the Justice people. I cannot at this time, because I just have not followed it that much, give you any more information other than that.

Senator **Dodd**. Well, aside from the obvious legal questions associated with it, I presume there was some investigation done as to the destination of those funds. He is, I understand, a close associate of Mr. d'Aubuisson and has been outspokenly critical of the Duarte government. Is that not true?

Ambassador MOTLEY. I am told as a result of grabbing this guy that he had some—that he was not enamored with Mr. Duarte's government and that he had some associations with Mr. d'Aubuisson. But, of course, when you apprehend somebody like that in that nature, Senator, as you know better than most, the guy just does not say let me tell you what I was up to, and I was going to do all these marvelous things and all the rest of it.

Senator DODD. Right. I understand that.

Ambassador MOTLEY. And it is also a case that is before the judicial process now, and it is kind of difficult to get into specifics.

Senator DODD. Well, I understand that. Are we investigating the source—do we know the source of the money? Do we know where it came from?

Ambassador MOTLEY. No, I do not think we do know the source of the money. I think there is suspicion that it may have been involved in drug moneys. But as I said, it is in the hands of the Justice people. And what I would suggest we do is that we let the—and I will ask the Justice people to come by within the realms of which they can of a case that is under investigation.

Senator DODD. I understand that. Is the State Department or the administration investigating the matter beyond the legal questions for foreign policy implications?

Ambassador MOTLEY. Well, I have not seen anything to date, Senator, that leads me to believe that there are any significant foreign policy implications. As this case unrolls, if something comes to our attention, yes, we will pursue it.

Senator DODD. But there is no present investigation as to whether there are any foreign policy implications?

Ambassador MOTLEY. No. There were queries made which we provided to the investigators, and I think that this is under the rubric of their investigation as to the illegal activities for which they apprehended them as to this guy has a passport number so and so, and it was issued such and such, and he alleges to be, and this kind of stuff.

Senator DODD. Well, I happen to totally agree with the administration about their significant battle against drug trafficking. If there is a suspicion that this $6 million in small bills was headed for El Salvador and was related presumably to narcotics trafficking I would hope that it would be more than something we would merely leave to a judicial hearing. Rather I would hope that it would be something that ought to deeply interest the administration to want to know far more about it than just whether or not this is a person caught with a large amount of cash trying to sneak across the border.

Ambassador MOTLEY. I think that is legitimate. It does raise questions. I think the happy thing was that regardless of what his intentions were, he was apprehended by our people in an illegal act. And that we do not have questions, I would agree with you, and we will continue to look at it.

Senator DODD. But there is no State Department investigation of the matter?

Ambassador MOTLEY. Well, I would not term the word "investigation," no. We have an interest in it, and if—obviously, our Embassies in the various capitals of Central America are aware of the facts of what we know, and if they can shed any light on it by their own knowledge or what they turn up, I am sure they will share it with us. But the State Department does not as a general rule—I guess maybe it is the word "investigation" is the word that is throwing me off. But yes, there is an interest in it, and we will continue to pursue it.

Senator DODD. Col. Roberto Santivanez has recently been making a number of allegations involving the relationship between the Government of El Salvador and certain individuals with ties to the old Nicaraguan National Guard. One of the reports—and I merely ask you about it—is that Mr. d'Aubuisson of the Arena party in El Salvador has close contacts with the contra leadership, and in fact developed those contacts with the contra leadership prior to the fall of Somoza.

Do we have any information at all that Mr. d'Aubuisson was stationed at all in Managua prior to the fall of Somoza?

Ambassador MOTLEY. I am not aware of any, but I will go back and search and see if we can find some for you, if in fact we know whether he was or not.

[The information referred to follows:]

It does not appear that Maj. d'Aubuisson was stationed in Managua prior to the fall of Somoza.

Ambassador MOTLEY. With regard to Mr. Santivanez, you may recall that this is not something new. He first appeared with a mask over his head, and then there was an exchange of about $30,000, he took the mask off. I mean it is something that has been around for a while.

Senator DODD. I was not merely citing something that he had raised before.

Ambassador MOTLEY. Pardon?

Senator DODD. I was merely asking you whether or not his information was correct. I was not suggesting that he necessarily ought to be believed, just whether or not his information——

Ambassador MOTLEY. We will take a look at it. Sometimes we have bios on different members of the military forces, and if they move around, we should know about where they were stationed, and we will be happy to provide you with what we know about it.

Senator DODD. Just for the purposes of the record, too, there has been an awful lot of discussion about how much aid money was provided to the Government of Nicaragua between the 1979 to 1982 period, which was about $123½ million. For purposes of the record I think it is worth noting. Not that it reveals anything significant, but during the period of 1962 and 1978 we provided the Nicaraguan Government in excess of $282 million in aid. Many times the suggestion is made that we provided more money between 1979 and 1982 than we had over a number of years to the Somoza government. Based on "U.S. Overseas Loans and Grants," this particular document shows for the period from 1962 to 1979 some $300.5 million going to the Somoza government.

Anyway, I thank you, Mr. Secretary, and I thank your panel for coming up here today.

Mr. Chairman, I appreciate your courtesy as well.

Senator HELMS. Thank you, Senator.

Well, the Chair would observe that it was not Confucius who said that the mind can absorb no more than the seat can endure. We will proceed.

Senator Kerry.

Senator KERRY. Is that a hint, Mr. Chairman? [Laughter.]

I will not be too long, I hope, Mr. Chairman, mindful of the limitations of our collective seats.

I adopt at the outset the comments of my colleague from Connecticut, and I am glad he said what he said. I had intended also to say for the record that I have been part of a debate over an issue of foreign involvement that became extremely polarized, and I hate to see that kind of polarization take place. I do not think it is a white hat, black hat kind of issue. There are a lot of us on the other side of the aisle who, while we disagree with a particular choice of policy and how we are carrying it out, share a very deep-rooted conviction that there are differences between this hemisphere and others in which we have had involvements, and there are certainly differences between Central America and our most recent efforts in other parts of the world. We do have very real interests in that region. Whether they are historical, cultural, political, military, or economic, I think they are there. They exist.

I take no pleasure in seeing Marxist regimes near us or around us. That is not, I think, something that any of us desire. But the question is: What do we do about it? How do we best achieve our interest in certain parts of the world? I think that is what my colleague and a lot of us are concerned about in Central America.

With that in mind, I would ask you if you would perhaps comment on why it was that we have had such difficulty accepting a process which we have so publicly said we adhere to and want to see work, namely the Contadora process? When Nicaragua said it was willing to sign, it seems to me that that was an opportunity for this Nation to set that region on a different course. I do not think there have been hearings, at least before this committee, on that subject since that time. So for the record at least I would like to ask you to articulate specifically why we were so unable to move to make that process come together, to use the art of diplomacy, to try to minimize the need for people to be killing each other in that region.

Ambassador MOTLEY. How much time have you got?

Senator KERRY. Well, how much time can our seats endure? I guess that is the issue.

Ambassador MOTLEY. I will be happy to give you an English translation of that draft Acta that you are talking about, and you will find that first, as you understand, the United States is not part of the Contadora process, and I think there is a certain benefit to that, that it is an all-Latin effort. Now, that does not mean that we do not have interests in the area, as we have both agreed.

Second, if you look at that draft Acta and you remember how it was postured—Acta is the word for treaty—it was the third draft. It was dropped at a period in time in which comments were required or requested from all the parties by October 15. It was not envisioned by the drafters to be a final thing.

There were two specific things that the four countries in Central America objected to, and one was the essence of simultaneity, and the other was the element of verification. By simultaneity is meant that, if you look at what the draft said, it said it will decide these things, and the real hard ones we will establish a process to start talking about but without any agreement. And the feeling was that you had to wrap it all together, because once you just kind of signed here, you would not ever get to the second part. That goes to the simultaneity aspect.

As to the verification, there was not any, and I think most of them agreed to it. They have subsequently and at that time have engaged a third party, a third country not from the region, not us, who has an expertise in different multilateral bodies in different parts of the world on verification and control of arm levels and onsite inspections and these things that we rassle with in another element. And I think you will find that that which they are working on now and which they will discuss on April 12, which is the next meeting of Contadora, you will find that I think it has tightened up quite a bit.

But the element of the Nicaraguans saying they will sign, you may have forgotten what else they said. They said not change a comma, and so by veto are denying all the other countries from making any changes in what was a draft waiting for a period of time in which people could comment. So, in essence, they are finessing the other ones out.

Now, that is the short version of that. I do not know whether you were here when I told you that in the Contadora process, Ambassador Shlaudeman since the first of April of last year, by the end of December had 120 meetings with the heads of state and the foreign ministers of the nine countries. He would go and see them before they met. He would see them after they met. He would see them before and after he had his bilateral meetings at Manzanillo. I think we have been very active for a country that is not a signatory to the treaty.

Senator **Kerry**. Mr. Chairman, I am going to defer to the chairman's question at the outset of this, but I do have some other questions we might follow up in writing, if that is possible.

Ambassador **Motley**. Be happy to, or if you would like to do it privately, too, Senator.

Senator **Kerry**. Thank you very much.

Thank you, Mr. Chairman.

Senator **Helms**. Thank you, Senator.

I have one question. It will take 10 seconds to answer. How many meetings, how many talks—now, I am talking about total—has the United States had with Nicaragua? I want you to include meetings in Washington, in Atlanta and in Mexico?

Ambassador **Motley**. If you are talking about the so-called Manzanillo talks——

Senator **Helms**. Right.

Ambassador **Motley** [continuing]. Which were formalized by the Secretary of State in his visit to Managua on June 1 of last year, Harry Shlaudeman has engaged in nine meetings with them, with his opposite number who was appointed, a vice minister by the name of Tinoco.

Now, in addition to that, we have at different occasions met with the Nicaraguans. We have run into them at the United Nations.

We have literally run into them at the inauguration in Brazil 2 weeks ago. And so there is a variety of different contacts.

I can get for you for the record that number, but it is quite considerable.

Senator **Helms**. Well, we will leave the record open for your response to that.

NUMBER OF MEETINGS WITH NICARAGUANS

Sixteen in 1984 and 1985. These comprise nine rounds of bilateral talks at Manzanillo and Atlanta, plus 7 meetings betwen ranking Nicaraguan and Washington-based U.S. officials:

Visit of Special Envoy Stone to Managua, January 5, 1984;

Visit of Special Envoy Shlaudeman and Assistant Secretary Motley to Managua, April 4, 1984;

Visit of Secretary Shultz to Managua, June 2, 1984;

First round of bilateral talks, Manzanillo, June 25-26, 1984;

Second round of bilateral talks, Atlanta, July 16, 1984;

Third round of bilateral talks, Manzanillo, July 31-August 1, 1984;

Fourth round at Manzanillo, August 15-16, 1984;

Fifth round at Manzanillo, September 5-6, 1984;

Sixth round at Manzanillo, September 25-26, 1984;

Meeting between Daniel Ortega and Assistant Secretary Motley and Special Envoy Shlaudeman at United Nations General Assembly, New York, October 3, 1984;

Meeting between Special Envoy Shlaudeman and Nicaraguan Vice Minister of Foreign Affairs Tinoco, Panama, October 11, 1984;

Seventh round at Manzanillo, October 30-31, 1984;

Eighth round at Manzanillo, November 19-20, 1984;

Ninth round at Manzanillo, December 10-11, 1984;

Meeting between Secretary Shultz and Daniel Ortega, Montevideo, March 2, 1985; and

Meeting between Vice President Bush and Daniel Ortega, Brasilia, March 16, 1985.

Senator **Helms**. Senator Dodd, Senator Kerry.

All Senators are invited to submit questions in writing, and we would appreciate your responding to them. I will have a few myself.

Well, thank you gentlemen for coming, and I apologize for the lateness.

Ambassador **Motley**. Thank you.

[Whereupon, at 6:30 p.m., the subcommittee adjourned, subject to call of the Chair.]

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